

# **Poverty Reduction and the Role of Institutions in Developing Asia**

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## Foreword

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## Abstract

The extent and seriousness of poverty vary markedly across Asian developing countries, and so does the rate at which poverty has changed over time. In addition, there are large intercountry differences in the extent to which social services, especially health and education, reach the poor. There is no simple explanation for these disparities. However, they do demonstrate that poverty is the outcome not only of economic phenomena but also of social and political processes and how these interact with each other. Mediating these interactions is a variety of institutions that are important to understanding poverty and devising needed policies. Institutions affect poverty both directly and indirectly via a number of mediating factors. Institutions influence government policies, which in turn influence growth and distributional outcomes, which then affect the pace of poverty reduction. In addition, institutions directly influence the pace and quality of economic growth. Then, of course, government policies affect institutions as well. The impact of institutions—whether political, social, cultural or administrative—on poverty reduction is thus pervasive. This paper examines the effects of institutions on poverty reduction and the pathways through which these effects operate.

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## I. Introduction

**A** main feature of Asia's success story is the remarkable social transformation and poverty reduction that have accompanied the region's rapid economic growth. Some three decades ago, more than half the region was poor, just two of five adults were literate, and the average person could hope to live only 48 years. At present, the proportion of poor people is down to one third, 70 percent of adults are literate, and life expectancy is up to 68 years. And while the region's population has increased from 1.8 billion to 3.0 billion, the number of poor people has dropped from more than 1 billion to below 900 million.

However, because Asia is so vast and diverse, its success story is not equally applicable to all economies. There are large disparities in economic and social progress between and within countries in the region. The contrast between the economies in South Asia and those in East and Southeast Asia is sharp. Even the more dynamic East and Southeast Asia have suffered some setbacks, including increases in transient poverty in the countries hardest hit by the recent Asian financial crisis.

Some countries have, wittingly or unwittingly, adopted more pro-poor economic growth strategies than others, and with remarkable success. What the key policy ingredients are of such growth, and what factors apart from economic growth differences account for the differential progress in social development and poverty reduction across Asian developing countries, remain challenging questions.

### A. Poverty Reduction in Asia

The extent and seriousness of poverty vary markedly across Asian developing countries (ADCs). For example, using national definitions, poverty incidence ranges from a low of 6 percent in the People's Republic of China (PRC) to a high of 53 percent in Bangladesh (Table 1); or using the international definition of a dollar a day, poverty varies from less than 2 percent in Thailand and Kazakhstan to as high as 50.3 percent in Nepal (David et al. 1999). Likewise, the extent to which poverty has fallen over time also varies substantially across Asia. In South Asia, for instance, poverty incidence barely changed between 1987 and 1996, falling from 44.9 to 42.3 percent. In contrast, the incidence of poverty in East Asia fell from 26.6 percent in 1987 to 14.9 percent in 1996 (World Bank 2000a).

In addition, there are large intercountry differences in the extent to which social services, especially health and education, reach the poor. For example, some countries, such as Sri Lanka, have been much more successful than other countries, such as Pakistan, in targeting social services and subsidies to the poor (Streeten 1995).

There is no single explanation for these disparities. Some speculate that the diversity of experience stems from cross-country variations in geographical characteristics, natural resource endowments, demographic trends, and urbanization rates (UN-ESCAP 1998, ADB 1999b, World Bank 1997). However, these demonstrate that poverty is the outcome not only of economic processes but also of social and political phenomena and how these interact with each other. Mediating these interactions is a variety of institutions that are important to understanding poverty and to devising needed policies. Thus, while economic growth is widely recognized to be the principal engine that promotes poverty reduction and improvements in people's living standards, it alone cannot fully explain the intercountry differences in achievements made in poverty reduction. In addition, of course, the adoption of policies that promote rapid economic growth is itself influenced by social, political, and institutional processes.

Accelerating the progress in poverty reduction requires a strategy that, in addition to promoting rapid economic growth, will address the other determinants as well, including institutions and other factors. For instance, removing institutional and policy constraints can make economic growth pro-poor. The new poverty reduction strategy of the Asian Development Bank (ADB) adopts a comprehensive approach and recognizes this concern: "Since poverty causes and characteristics differ from country to country, the starting point must be a comprehensive examination of the constraints and opportunities for poverty reduction in each country. This will require understanding the nature, intensity, and spread of poverty; the distributional effects of macroeconomic policies; the focus and efficiency of public expenditures; and the effectiveness of government programs and institutions" (ADB 1999a, 15).

## **B. What are Institutions?**

This paper adopts a somewhat broad definition of institutions as "... the humanly-devised constraints that structure political, economic and social interactions" (North 1991, 97). Institutions include social networks, gender roles, legal system, politico-administrative system, and the state more generally—all of which interact with each other. Institutions are either state or nonstate. State institutions cover many aspects, such as the public provision of basic education and health services, public order and safety, and infrastructure. The nature of governance will determine the availability and quality of these public services and, hence, the extent to which the poor have access to them.

Nonstate institutions are social institutions, values, and norms. A key social institution is social capital, which consists of informal norms or established relationships that enable people to pursue objectives and act in concert for common benefit. Social capital is particularly important for the poor. Ethnicity and gender roles, which remain pronounced in Asia and lead to discrimination against minorities and females, are other institutions that underlie poverty and inequality.



Thus, apart from economic growth, various institutions and sociocultural factors can explain why some countries have reduced poverty and inequality faster than others, or why in particular circumstances poverty and inequality are so difficult to tackle. Institutions and policies influence all three pillars of ADB's poverty reduction strategy: pro-poor, sustainable economic growth; social development; and governance. Analyzing the nature of these institutions and policies will contribute to a deeper understanding of poverty and pro-poor growth and the formulation of more effective country poverty reduction strategies.

The objective of this paper is to identify and discuss the main institutions that have an impact on poverty reduction, either directly or indirectly via their impact on economic growth. In addition, the paper explores the various pathways through which institutions may inhibit or promote poverty reduction efforts in a country and examines the impact of institutional policies and reforms on poverty reduction. Some of the questions it tries to address are: to what extent have institutional constraints inhibited some ADCs from being able to reduce poverty rates as rapidly as other ADCs? How can one explain vast intercountry differences in social, cultural, and political institutions? Are these differences exogenous, or can they be changed by policy interventions? What types of institutional reforms can improve the poverty reduction efforts of countries?

### C. Context and Structure of the Paper

This paper is based on research that covered six ADCs: Bangladesh, Lao PDR, Pakistan, Philippines, Thailand, and Viet Nam; and included two newly industrialized economies in Asia, Republic of Korea (Korea) and Taipei, China. The research undertook extensive reviews of the literature; field interviews with key persons from government, academia, and nongovernment organizations (NGOs); and country case studies (Korea; Philippines; Taipei, China; and Thailand).

The paper is organized as follows. Section II discusses the various analytical approaches to poverty reduction that have evolved over the years, particularly the relative roles of economic growth, direct poverty alleviation policies, social service provision, institutions, and governance in overall poverty reduction.<sup>1</sup> Section III is concerned with the political economy of poverty reduction. It discusses the importance of political will and commitment to poverty reduction and how such political will is shaped by interest groups and dominant coalitions. Section IV deals with the role of social and cultural institutions—such as social exclusion, social capital, and civil society—in poverty reduction. The fifth section discusses how reform involving public institutions (administrative reforms, decentralization, citizen participation in governance, and improved legal framework) can reduce poverty. Section VI concludes with a discussion of policy lessons and implications.

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<sup>1</sup> Throughout this paper, the terms “poverty reduction”, “poverty alleviation”, and “antipoverty” are used interchangeably.

Table 1. **Changes in Poverty Incidence and GDP per Capita, Asia, 1990s**

Economy	Year	<u>Poverty Incidence</u>		Percent Incidence	<u>Annual Percent Change</u>	
		Percent	Year		Poverty per Capita	Real GDP
Bangladesh	1992	58.8	1996	53.1	-2.5	3.1
Cambodia	1994	39.0	1997	36.1	-2.5	3.2
PRC	1994	8.4	1996	6.0	-15.5	10.5
India	1992	40.9	1994	35.0	-7.5	3.3
Indonesia	1990	15.1	1996	15.7	0.6	6.2
Korea	1994	16.4	1995	12.3	-25.0	7.3
Lao PDR	1993	45.0	1998	38.6	-3.0	4.2
Malaysia	1995	9.6	1997	6.8	-15.8	6.4
Nepal	1992	49.0	1996	42.0	-3.8	2.4
Pakistan	1993	22.4	1997	31.0	8.5	1.5
Philippines	1994	40.6	1997	36.8	-3.2	2.6
Sri Lanka	1991	20.0	1996	25.0	4.6	4.0
Taipei,China	1996	0.5	1997	0.5	0.0	5.3
Thailand	1994	16.3	1996	11.4	-16.4	7.7
Viet Nam	1996	19.2	1997	17.7	-8.0	7.4

Sources:

**Poverty Incidence:** Bangladesh: ADB (2000); Cambodia: World Bank (2001); PRC: World Bank (2002) and Global Poverty Monitoring (<http://www.worldbank.org/research/povmonitor>); India: World Bank (2001); Indonesia: World Bank (2001) and Global Poverty Monitoring (<http://www.worldbank.org/research/povmonitor>); Korea: Yoon (2001); Lao PDR: Lao PDR (2000); Malaysia: Jomo and Aun (2000); Nepal: World Bank (2001) and Mahbub ul Haq Human Development Centre (1999); Pakistan: Kemal (2000); Philippines: NSCB (1997); Sri Lanka: World Bank (2001); Taipei,China: Tsai (2001); Thailand: NESDB (1999); Viet Nam: MOLISA (2000).

**Real GDP per Capita:** World Bank (2002), Global Development Network Growth Database (<http://www.worldbank.org/research/growth/GDNdata>).

## II. Analytical Approaches to Poverty Reduction

### A. The Evolution of Poverty Strategies

The policy concern with poverty and income distribution among multilateral organizations goes back as far back as 1970, when the United Nation's Committee for Development Planning, in preparing for the United Nation's Second Development Decade, declared that "...the efforts needed are best characterized by what is sometimes called the necessary 'war on poverty'" (United Nations 1970, 6). The Committee declared poverty reduction through accelerated development, improved income distribution, and other social changes (including employment, education, health, and housing) as the paramount objective of an appropriate international development strategy.

In 1974, the World Bank published a seminal volume on *Redistribution with Growth* (Chenery et al. 1974), which emphasized that policies of wealth redistribution were not only con-

sistent with, but actually conducive to, growth-promoting policies. The idea that there was no trade-off between economic growth and the fight against inequality and poverty was relatively innovative, but quickly won acceptance in policy circles.

During the 1980s, the International Labor Office (ILO) launched the World Employment Program (WEP), under which a number of studies on income distribution and poverty were undertaken. Many of Sen's early writings on the entitlement-capability approach (Sen 1981), for instance, were published under the ILO WEP program.

The World Bank (1990) took this concern with poverty further by focusing its *World Development Report* on poverty, which declared that a successful attack on poverty needed to be mounted simultaneously on three fronts: (i) broad-based (labor-intensive) economic growth that generates employment and incomes for the poor; (ii) development of human resources (education, health, and nutrition) of the poor, which allows them to better exploit the opportunities created by economic growth; and (iii) establishment of a social safety net for those among the poor who are unable to benefit from growth and human development opportunities owing to physical and mental disabilities, natural disasters, civil conflict, and physical isolation.

The ADB's poverty reduction strategy, although broadly similar, differs from the World Bank's in that it explicitly considers the importance of governance. According to the ADB (1999a), the three pillars of a poverty reduction strategy are: (i) pro-poor, sustainable economic growth; (ii) social development comprising human capital development, social capital, improving the status of women, and social protection; and (iii) sound macroeconomic management and good governance, which would be required for successful achievement of the first two pillars.

In addition, the ADB approach emphasizes the importance of understanding the nexus between poverty and the environment. Two of the major environmental issues are (i) air and water pollution in megacities that affects the poor disproportionately (Pernia 1994); and (ii) deforestation, natural resource depletion, and land degradation that can deepen poverty (Quibria 1993).

Most recently, the *World Development Report 2000* has come up with a new analytical framework to attack poverty that is built on three pillars: empowerment, security, and opportunity (World Bank 2000b). Empowerment is the process of enhancing the capacity of poor people to influence the state institutions that affect their lives, by strengthening their participation in political processes and local decision making. Security is the protection of the poor against adverse shocks, both via better management of macroeconomic shocks as well more comprehensive safety nets. Opportunity is the process of increasing the access of the poor to physical and human capital and increasing the rates of return to these assets.

Despite their superficial differences, the various approaches to poverty alleviation are actually very similar. All the approaches emphasize the importance of broad-based, labor-intensive, and inclusive growth; good governance and accountability; human and social development; and social protection and special poverty alleviation policies.

In recent years, the issue of globalization and poverty has been brought to the forefront. Proponents of globalization assert that globalization offers enormous opportunities to developing countries through easier access to the world's knowledge, better technologies for delivering prod-

ucts and services, and expanded markets. Opponents insist that by requiring developing countries to lower tariffs and other trade barriers, globalization destroys domestic industries, traditional crafts, and threatens the food security of poor families. A recent review by the Department for International Development (DFID 2001) points to a few serious concerns, including the fact that although globalization has an important role in promoting economic prosperity, it has not influenced the lives of the poor living in remote or inaccessible areas so far. In addition, globalization has also exposed developing countries to systemic risks, as illustrated by the Asian crisis of 1997. But the damaging effects of such crises could be averted through a sound macroeconomic position, adequate domestic regulation, and transparency in relationships between companies and banks. In other words, the potential benefits of market reforms and globalization cannot be realized in the absence of an appropriate regulatory framework, and this means that the poor are often subjected to acute hardships during the process of liberalization.

More specific concerns in the context of rural poverty alleviation emerge from the Report on Rural Poverty by the International Fund for Agricultural Development (IFAD 2001). Trade liberalization, for example, influences the rural poor in diverse ways. Removing or reducing biases against farm prices may help food sellers among the rural poor but harm net food buyers. However, access to competitive market channels matters too. If, for example, monopsonistic marketing boards are replaced by a private monopsonist, the gains from trade liberalization to smallholders may remain limited. Moreover, supply responses are conditional upon infrastructural support (e.g., roads and communication networks). Finally, trade liberalization is associated with not just higher food crop prices but also higher variances of these prices, especially rice. So, even if smallholders benefit under certain conditions from higher prices, they are also exposed to greater variability of farm incomes.<sup>2</sup> Worries over food security add to the already high levels of tension among the poor.

## B. Analytical Framework

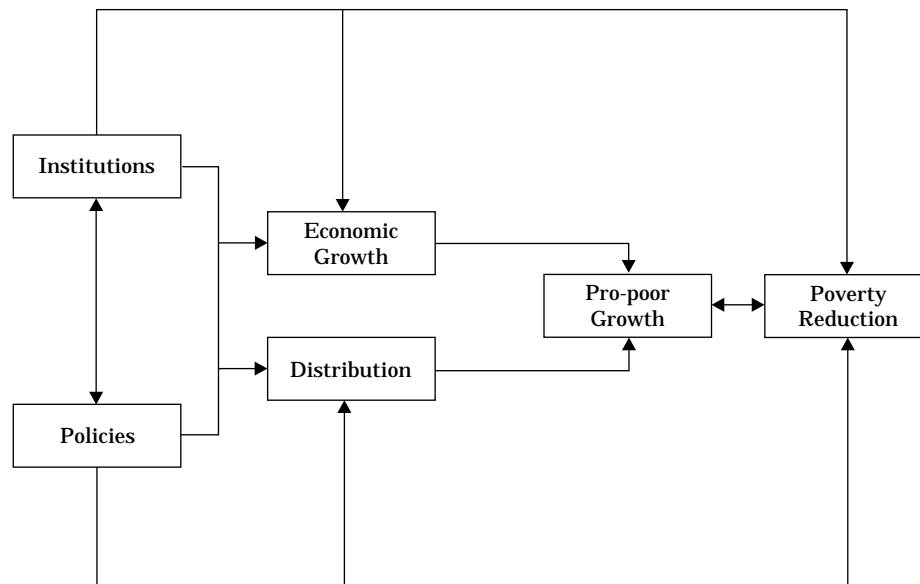
What is the nature of the linkages between economic growth, policies, institutions, and poverty reduction? Figure 1 below illustrates how these factors are related to each other, with respect to poverty reduction outcome. Institutions affect poverty both directly and indirectly via a number of mediating factors.

While this paper is basically concerned with all of the linkages between institutions and poverty reduction shown in the above diagram, it gives relatively greater emphasis to the direct, rather than the indirect, effects of institutions and institutional policies on poverty. The reason for this is that there is already a large, three decades-old literature on how political, social, cultural and administrative institutions affect economic growth and income distribution in a country via its choice of macroeconomic and trade policies, such as outward orientation, financial liberalization, exchange rate flexibility, macroeconomic stability, and labor market flexibility (see, for example, Little et al. 1970).

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<sup>2</sup> For illustrations, see Lustig and Stern (2000) and Gaiha (2000a).

Figure 1. **The Relationship between Institutions, Economic Growth, and Poverty Reduction**



### C. Pro-poor Growth

In the last few years, there has been increasing interest on the question of whether the poor relative to other segments of society, share the benefits of growth proportionally. One strand of literature analyzes the cross-country relationship between economic growth and per capita income of individuals in the first quintile of the distribution (i.e., the relative poor). Using essentially the same data and similar econometric techniques, Roemer and Gugerty (1997), Gallup et al. (1999), and Dollar and Kraay (2000) estimate the growth elasticity of per capita incomes of the “poor” to be practically one, implying that growth in average income leads to a one-for-one increase in the incomes of the poor. However, Timmer (1997) obtains an elasticity of around 0.8, indicating less-than-proportionate gains for the poor from economic growth.

The second strand of literature has examined the effect of economic growth on absolute poverty. Ravallion (2000), Ravallion and Chen (1997), and Bruno et al. (1998) find that the elasticity of the poverty headcount ratio is typically greater than two, viz., that when average income increases by 10 percent, the proportion of poor declines by more than 20 percent. Other studies such as Morley (2000), De Janvry and Sadoulet (2000), and Smolensky et al. (1994) report a smaller elasticity of around one percent, but these are obtained from a smaller sample of countries. Ravallion and Chen (1997) also use poverty lines that combine an absolute and a relative component, but their elasticities are highly sensitive to where the poverty line is located. They estimate an elastic-

ity of poverty ranging from -2.6 to -0.7, depending on whether the threshold is established at 50 or 100 percent of the average income observed at the initial period of observation.

The above discussion ignores the fact that the relationship between growth and poverty is highly country-specific; the “average” elasticity estimated by various studies is unlikely to capture the wide range of country experiences. In some countries, economic growth has been associated with rapid poverty reduction, while in others it has not. Even in a given country, growth can sharply reduce poverty at one point in time and can have a much smaller effect on poverty reduction during another time period.<sup>3</sup>

It is in this context that the term “pro-poor growth” is often used. Pro-poor growth, which can be distinguished from “trickle-down” growth, is economic growth that is explicitly biased in favor of the poor so that they benefit more than proportionately relative to the nonpoor. Obviously, pro-poor growth is possible only under an enabling environment in which poor households can rapidly increase their production, income, and earnings. Since the most important asset—often the only asset—that the poor possess is their own labor, labor-intensive development projects tend to be pro-poor.

Kakwani and Pernia (2001) define a pro-poor growth index that compares the actual reduction in poverty due to growth with the reduction in poverty that might have occurred with no change in inequality. Using this definition, they find that during the 1990s, growth in Korea was significantly more pro-poor than growth in Thailand and Lao PDR. However, growth in Thailand became progressively more pro-poor over time. Further, growth in rural areas is more pro-poor than growth in urban areas.<sup>4</sup>

#### D. Role of Direct Poverty Alleviation Policies

Obviously, no one would argue that growth is all that is needed to improve the lives of the poor. Many developing and developed countries have supplemented macroeconomic growth with direct antipoverty interventions. Such interventions include land reforms, micro credit, and public employment schemes. Land reforms are critically important in less industrialized countries, as access to land is an important source of livelihood in the rural areas. Moreover, to the extent that many empirical studies have shown smallholders to be more efficient users of land than large landholders, and sharecropping to be inefficient vis-à-vis owner-operated cultivation (Shaban 1987, Binswanger et al. 1995, Otsuka 2000, Ravallion and Sen 1994), implementation of land reforms

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<sup>3</sup> Further, economic growth, like antipoverty interventions, can benefit the higher strata among the poor, but have little impact on the poorest of the poor.

<sup>4</sup> Timmer (1997) also touches upon this issue. He finds that in countries in which the income gap between the poor and the rich is relatively small, growth of labor productivity in agriculture has larger positive effects on the incomes of each quintile than the growth of nonagricultural productivity. But in countries with large income gaps, growth in agricultural productivity is no more effective than nonagricultural productivity in alleviating poverty. Not surprisingly, the rich in these countries benefit substantially from agricultural growth, presumably because of highly skewed land distribution.

may pose no trade-offs between equity and efficiency.<sup>5</sup> Land reform is also said to give a “voice” to landless workers and sharecropping tenants (who tend to be the poorest groups in most countries) through greater participation in local institutions.<sup>6</sup>

Special employment schemes have also figured prominently in poverty alleviation programs of many Asian ADCs. The two most common types are self-employment creation schemes and wage-employment schemes.

Most self-employment creation schemes seek to place income-generating assets, such as milk cows, power looms, small retail stores, or street-hawking equipment, in the hands of the poor, typically by providing them with access to credit and other forms of marketing assistance. A good example is India’s Integrated Rural Development Program (IRDP), that offers subsidized credit to the poor for purchase of income-generating assets. Dubbed as one of the largest self-employment schemes in the world, the IRDP benefits nearly one third of all rural poor households in India (Bandopadhyaya 1985). Indonesia has also had two similar schemes with very wide coverage, KUPEDes and Badan Kredit Kecamatan (BKK). The BKK serves more than 35 percent of Java’s 8,500 villages (World Bank 1990). Another well-known self-employment creation (microcredit) scheme is the Grameen Bank of Bangladesh (Khandker 1998).

Wage employment schemes provide wage labor opportunities, typically on public works projects, to the poor. These schemes have long been used in many developing countries in emergency situations, such as during periods of famine and drought and, more recently, during periods of macroeconomic stabilization and adjustment, when there is large-scale, transitory unemployment and underemployment in the rural sector. However, in recent times, many developing countries have incorporated such schemes as regular elements of an antipoverty strategy. In South Asia particularly, wage employment schemes in the form of rural works have formed the core of government antipoverty strategies. For instance, the Government of India operates a national wage employment scheme based on public works projects, the National Rural Employment Program (NREP). Another well-known scheme is the Employment Guarantee Scheme in the Indian state of Maharashtra. In the Philippines, in the mid-1960s, a pump-priming program that centered around construction of roads and other infrastructure was implemented to generate employment in the countryside. Again, in 1986, the Aquino government launched the Community Employment Development Program, which also focused on building farm-to-market roads and other similar infrastructure as part of the rural job creation scheme.

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<sup>5</sup> In a somewhat qualified endorsement of land redistribution, Banerjee (2000) does not dispute the efficiency and equity gains. However, given that all forms of redistribution cost money as well as bureaucratic and political capital, it is unclear whether redistributing land is the best way to redress inequality.

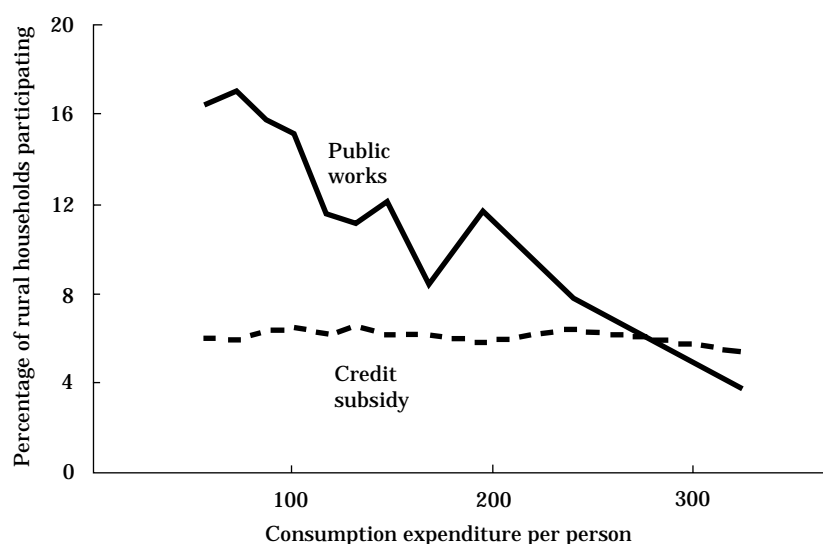
<sup>6</sup> From the perspective of broadening the constituency for antipoverty interventions, Herring (2000, 31) observes, “Whether policy promotes more or less state intervention, agrarian reform remains a means of restructuring the field of power to which state functionaries respond, and therefore enables more possibilities for building an effective and responsive state, without which all other antipoverty options including growth are reduced in efficacy.”

Which of the three sets of policies—land reform, micro credit, or public employment programs—is likely to be most effective in reducing poverty? A combination of all three policies typically will be more effective than any single policy, as each addresses different aspects of poverty (e.g., chronic versus transitory poverty). However, it is important to note that direct poverty alleviation policies alone are unlikely to result in sustained poverty decline. What is needed is a combination of pro-poor economic growth and direct poverty interventions.

A study that compared the distribution of beneficiaries in two antipoverty programs in the Indian state of Maharashtra, namely a credit scheme (viz., the Integrated Rural Development Program) and a workfare scheme (the Employment Guarantee Scheme) found that the workfare scheme was well-targeted to the poor. Participation in the scheme declined with economic status (Ravallion and Datt 1995). In contrast, participation in the credit scheme had virtually no relationship with the economic status of beneficiaries (Figure 2). This may be because a large number of individuals misrepresented their incomes to qualify for subsidized loans, or there was widespread corruption in program administration.

A few studies have drawn attention to the disincentive effects of direct antipoverty interventions. In the context of rural public works, for instance, it has been argued that it may discourage job search and investment in income-augmenting skills (Besley and Coate 1992). Food subsidies in Sri Lanka have been associated with a reduction in labor supply and work effort (Sahn and Alderman 1995). Another study for South Africa found that public pension support provided to parents of migrant workers significantly decreased the remittances from migrant children (Jensen 1998). If these effects are confirmed through detailed empirical analyses, their implications for the cost-effectiveness of antipoverty interventions can be serious. An important issue then is whether incentive-compatible designs of such interventions are feasible.

**Figure 2. Public Works versus Means-tested Credit Subsidy, Maharashtra, India, 1987-88**



Source: Ravallion and Datt (1995).



## E. Role of Basic Social Services

Another instrument for combating poverty is improved access to social services, especially health and education, by the poor (Sen 2000a, World Bank 2000a). Not only are basic levels of health and education a right of the poor, they are also important in accelerating poverty reduction, as they allow the poor to take advantage of the opportunities created by economic growth.<sup>7</sup> But in many countries, the poor have less physical (geographical) and economic access to education and health services than the nonpoor, resulting in lower rates of utilization and hence worse health and literacy outcomes. There is thus a vicious circle of poverty leading to ill health, malnutrition, and illiteracy, which in turn perpetuate poverty.

The physical remoteness of the poor from public facilities, such as hospitals, health centers and schools, can often get exacerbated with community financing of public schools and health centers. Since richer communities are better able to raise matching funds for public investments, they are more likely to receive public facilities. Studies in such countries as Viet Nam and Cambodia have shown that average distances to secondary schools and higher-level health care (viz., polyclinics and hospitals) are significantly greater for the poor than for the nonpoor (Pradhan and Prescott 1998, World Bank 1999).

Even if geographical access to social services were the same for both the poor and the nonpoor, as in urban areas, the high cost of obtaining these services would serve as a significant deterrent to their use by the poor. Although many publicly provided services, such as health care and schooling, are supposedly available free of charge to the poor, the fact is that these services are rarely obtained without some form of payment. There are typically charges for drugs, textbooks, and supplies. In addition, public providers frequently extract informal payments to provide such “free” public services.

## F. Institutional Factors and Governance

Social, cultural and institutional factors are pervasive in their influence on poverty reduction—both directly as well as via their influence on growth, direct poverty alleviation policies, and provision of basic social services. For example, political exclusion can result in some groups not perceived to be politically important being denied access to publicly provided social services and poverty reduction programs. Agricultural growth can be less pro-poor because of the institutional problems of legislating and implementing effective land reform. In addition, sociocultural taboos and beliefs can result in some groups deliberately excluding themselves from participating in public antipoverty programs. These issues are discussed in detail in the following sections.

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<sup>7</sup> There is a large literature on the pecuniary and nonpecuniary returns to schooling in developing countries (Pscharapoulos and Woodhall 1985, Schultz 1988). In addition, several econometric studies have demonstrated the large productivity gains from improved health and nutrition (Strauss 1986, Deolalikar 1988, Sahn and Alderman 1989).

Likewise, there has been growing recognition of the fact that good governance is an important factor that contributes to poverty reduction not only directly but also via its effect on economic growth, direct poverty alleviation policies, basic social service provision, and democratic space for public participation. Good governance includes transparency and accountability in public decision making, greater participation of citizens and civil society in administrative decision making, and devolution of administrative and fiscal powers to local governments and communities. One major intervention to bring about good governance is the continuing attempt to introduce wide-ranging reforms in the public sector.

### III. The Role of Political Institutions and Political Economy

A primary prerequisite for poverty reduction is political will and commitment. If governments do not have the political will or commitment to reduce poverty, poverty reduction will either not occur or will occur very slowly. All the factors that cause poverty to decline, such as pro-poor growth, social development, and good governance, are dependent on political will and commitment. But how can political will for poverty alleviation be engendered?

#### A. Democracy, Political Will, and Poverty Reduction

There is an emerging literature that argues about the importance of democracy to poverty alleviation. The argument is that basic civil liberties, such as freedom of expression and dissent, hold governments accountable for their actions, thereby improving performance. The most famous proponents of this hypothesis are Sen (1982) and Drèze and Sen (1989), who have argued that no country with a free press has ever experienced a major famine. They hypothesize that the fear of the media focusing on the government's failure forces governments into prompt famine-avoidance action. However, as Sen (1982, 214) himself has noted, a free press does not necessarily eliminate persistent hunger since "the quiet persistence of regular hunger and non-extreme deprivation are not [newsworthy]." The case of India is pertinent in this regard; while India has been able to avoid large-scale starvation and famine because of its free press, it has been much less successful than other countries, such as the PRC and Sri Lanka, in eliminating malnutrition.

Likewise, a cross-country study of 1,488 World Bank-financed government projects in developing countries over the period 1974-1987 finds that the performance of these projects was better in countries having greater civil liberties (Isham et al. 1997).<sup>8</sup> The effect of civil liberties on

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<sup>8</sup> A very large number of indicators of civil liberties were used, including (but not limited to) media free of censorship, open public discussion, freedom of assembly and demonstration, freedom of political organization, and nondiscriminatory rule of law in politically relevant cases.

project performance continued to be strong and positive even after controlling for other political and economic variables.<sup>9</sup>

However, it is simplistic to think that democracy or civil liberties alone can guarantee poverty reduction. After all, only until recently was it widely believed that a strong and autocratic leadership was an essential factor common to all the ADCs that had experienced rapid economic growth and poverty reduction, such as Korea and Taipei, China in the 1960s and 1970s; Thailand in the 1970s and 1980s; and Indonesia in the 1980s and early 1990s. Some scholars have credited the success of Korea and Taipei, China in implementing far-reaching land reform to their “enlightened dictatorships” (e.g., Haggard 1996). At the same time, poverty reduction in one of Asia’s most democratic countries, India, had proceeded at one of the slowest rates in the region, at least until the 1990s.<sup>10</sup>

In a review of antipoverty programs in India, Kohli (1987) argued that there are differences in regime types even within a democratic setting, and that these differences matter significantly to poverty reduction. Three important elements of a pro-poor political regime in a democratic setting are: (i) coherent and stable leadership, (ii) clear pro-lower class ideology, and (iii) strong grassroots-level organization.

Naturally, the next question is why regimes differ in the extent to which they possess these three attributes. In other words, what determines the “pro-poor” bias of the political regime at the national and subnational levels?

## **B. Interest Groups and Dominant Coalitions**

A modern theory of the state is that governments are rarely monolithic and impervious to social and political pressure from interest groups.<sup>11</sup> Indeed, politicians, bureaucrats, businesses, and consumers frequently use the authority of government to distort economic transactions for their own benefit. Citizens use political influence to obtain access to benefits allocated by the state; politicians use public resources to retain power; businesses seek special favors (such as protection

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<sup>9</sup> Rather surprisingly, the authors also found a positive association between civil unrest in a country (e.g., protest demonstrations and strikes) and project performance. This, according to the authors, “... suggests that some degree of civil tension reflects a citizen’s ability to agitate and influence government’s behavior without negative repercussions—a mechanism that plausibly leads to greater accountability and hence better choice and implementation of projects... [Thus] basic civil liberties—such as the freedom of individual expression, a pluralistic and free media, the ability of groups to organize, and freedom of dissent and criticism—facilitate citizen voice and hence more effective government action” (Isham et al. 1997, 235-6).

<sup>10</sup> There is some evidence to suggest that, during the 1990s, absolute poverty has declined significantly in India, coinciding with the period of economic liberalization and reform.

<sup>11</sup> Indeed, what distinguishes “strong states” from “weak states” is the extent to which social control is vested in a large number of local-level social organizations that continually try to extract contracts, jobs, goods, services, and authority through the bureaucratic networks of the state. Such states end up being “weak states” that are unable to govern effectively because their leaders are too busy brokering conflicting demands from various constituencies, often for their own survival, to pursue broad social and political agendas (Migdal 1988).

from competition) from the government; and bureaucrats offer access to government benefits for personal reward. The result then is an inefficient and often inequitable allocation of resources.

Lobbying by special-interest groups is thus critical to understanding government actions. Within this framework according to de Janvry et al. (1992), the political feasibility of antipoverty interventions depends greatly on the distribution of benefits from the antipoverty intervention, which in turn depends on the prevailing configuration of pressure groups in the country (e.g., labor unions, landlords, peasant movements, consumer groups, women's groups). Thus, poverty (or, more generally, development) outcomes will be a function of dominant coalitions prevailing in the country (Bardhan 1984).

The prospects for poverty alleviation in a country are better the stronger the coalitions are of the poor. In turn the relative strength of coalitions of the poor depends on several factors, such as whether they are aware of potential gains from collective action, whether they cooperate with other groups, and whether they are politicized. There are many mechanisms through which coalitions of the poor can influence the state: via periodic consultations, lobbying through mass media, street protests, and other forms of activism and conflict.

To these traditional interest groups must be added another one that has become important of late, international institutions. Developing countries act within the context of the global economic system largely dominated by international institutions such as the International Monetary Fund, World Bank, Asian Development Bank, and World Trade Organization. These institutions often have an important say in influencing a developing country's choice of poverty-related policies. For example, labor market flexibility may be required of a country like Korea as a precondition for joining the OECD. A country like Cambodia or Viet Nam may be required by multilateral institutions to have a clear and donor-approved poverty reduction strategy in place to continue receiving preferential-rate loans (such as the Asian Development Fund or International Development Association credits). Thus, external actors can be regarded as another pressure or interest group influencing government action.

## 1. Land Reform

Nowhere is the importance of dominant coalitions and interest groups in bringing about poverty reduction more evident than in the case of land reform. It is widely recognized that effective land reform is a *sine qua non* of agricultural and economic development.<sup>12</sup> Even more impor-

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<sup>12</sup> The manner in which land is owned and organized affects (i) the incentive framework within which the farmer makes his production and investment decisions, (ii) the sharing of cropping risk between the tenant and the landlord, and (iii) the need for supervision in farming. There is a great deal of evidence from around the world that owner-cultivators have greater incentives than tenants to increase their work effort, to make longer-term productivity-enhancing investments in their land, and to adopt new and more appropriate agricultural

tantly, land reform is critical to poverty reduction, as landlessness is a root cause of poverty in rural Asia (ILO 1977, Khan and Lee 1984, Breman and Mundle 1991). Countries that have undertaken effective land reform not only have had more robust agricultural growth and productivity,<sup>13</sup> they also have enjoyed a better distribution of income and lower rates of poverty. In addition, an often underemphasized by-product of land reform is that "... by changing the local political structure in the village, [it] gives more voice to the poor and induces them to become involved in local self-governing institutions and the management of local public goods" (Bardhan 1997, 60).

There is ample evidence that land reform was critical in bringing about agricultural development, poverty reduction, and even industrial growth in Korea and Taipei, China. The sweeping land reforms enacted by Korea in 1948-1950 and by Taipei, China in 1949-1953 redistributed between one quarter and one half of all available land (Haggard 1990, Ho 1978). Korea, which had one of the most unequal distributions of land in the world in 1945 (with 3 percent of the rural population owning 60 percent of the land and a vast 80 percent of the rural population being landless tenants or semitenants), transformed itself into a country with one of the world's most favorable land distributions. In 1970, Korea's Gini coefficient of land inequality was merely 0.37—a great deal lower than Brazil (0.83) or Mexico (0.77) (Shin 1998). This reversal was entirely the result of sweeping land reforms, first by the American military government in 1948 and followed by the Korean government in 1950.

It is often believed that the occupying American occupation forces were responsible for implementing land reform in Korea. However, the real impetus for land reform came from social conflict in the form of agrarian struggles that began under Japanese colonial rule in the 1920s (Shin 1998). There were widespread tenancy disputes in the 1920s, which resulted in the colonial (Japanese) government abandoning its earlier landlord-based policy and its reluctance to intervene in land disputes. The Tenant Arbitration Ordinance was enacted in 1932, which enabled landlords or tenants to submit claims to nonbinding arbitration by local representatives of county tenancy offices. This was followed in 1934 with more land laws that further constrained landlord

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technologies, because they know that the resulting economic gains are largely theirs. Also, when farm workers own their land, there is less need for supervision of labor. Thus, the shift of a large number of tenants to owner-cultivators can have a significant positive impact on agricultural productivity, and rising productivity is necessary before resources, such as capital and labor, can be transferred successfully out of agriculture to the rest of the economy.

<sup>13</sup> However, it has been argued that while there may exist a marked inequality in terms of land ownership in many agrarian economies in Asia, there is much less inequality in terms of operational holdings (Otsuka 1993). The inequality in the distribution of land is further reduced when adjustments are made for soil quality differences across farm sizes, since, in most ADCs, small farms typically are located on superior quality soil than large farms. These facts tend to weaken the equity argument in favor of land reform. Moreover, in many poor countries (such as Bangladesh), the large size of the population and the small amount of land makes further redistribution economically infeasible. In these countries, the main plank of antipoverty policies in rural areas would have to be based on enhancing land productivity through new seed-fertilizer and irrigation innovations, and not through further redistribution (Pernia and Quibria 1999).

rights.<sup>14</sup> The power of the landlords was additionally circumscribed with the end of Japanese rule, as many of them were branded as collaborators with the colonial forces. It was against this backdrop that many grassroots organizations that dominated local politics in 1945, such as peasant unions and people's committees, proposed sweeping land reform to redress inequity and unfairness in rural society. Far from supporting land reform, the US occupation forces suppressed many of these organizations as communist and restored the Japanese colonial framework. This bred frustration and discontent among peasants which led to a major agrarian rebellion in the country in 1946. While the US military government made some concessions and distributed some Japanese-owned lands to peasants in 1948, real land reform did not take place until 1950, when the National Assembly passed a sweeping land reform bill (Shin 1998).<sup>15</sup>

Thus, a coalition of tenants and a reform-minded government, provoked by social conflict and agrarian unrest, was instrumental in forcing the Korean state to undertake land reforms. It is doubtful whether land reform would have occurred in Korea without the tenant activism that spanned the colonial, liberation, and war periods (Shin 1998).

Land reform in Taipei, China took place under a different set of circumstances. It was carried out in three stages between 1949 and 1953: the compulsory reduction of land rent; the sale of public land to actual tillers; and the "Land-to-the-Tiller Program," which imposed a limit on the amount of land that could be held by landlords.<sup>16</sup> Land reform was initiated just about the time that the Chinese Communists were about to completely take over the Chinese mainland and pose a looming threat to the island's internal security. It was against this background that the Nationalist Party began implementing land reform in Taipei, China, both as a means of gaining political

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<sup>14</sup> The 1934 Agricultural Lands Ordinance guaranteed contract lengths of at least three years, allowed tenants to propose reduction or remission of rent upon crop failure, made contracts renewable unless violated by tenants, and forbade agreements in which the tenant waived certain rights (Cho 1979).

<sup>15</sup> Interestingly, under the Korean land reform, landlords whose plots were expropriated were compensated for their land loss with land bonds or financial assets that could be reinvested elsewhere. The government encouraged the use of these land bonds for industrial capital formation through the purchase of vested nonagricultural enterprises. The land bonds constituted an important vehicle of the capital formation that was needed for Korean industrialization, and many landlords, especially the largest ones, profitably used land bonds to become industrial capitalists (Shin 1998).

<sup>16</sup> The rent reduction program, initiated in 1949, limited farm rents to a maximum of 37.5 percent of the annual yield of the main crops. Rent reduction was followed by the sale of public land (mostly land owned previously by Japanese colonists and confiscated after the war) to tenants, with the price set at 2.5 times the annual yield, which was well below the market price. Under the land-to-the-tiller program initiated in 1953 and the final step in the land reform process, land owned by landlords in excess of approximately three hectares of medium-quality paddy field, or its equivalent, was compulsorily purchased by the government and resold to the tenants at 2.5 times the land's annual yield. The government paid for the land in commodity bonds (70 percent) and in shares of stock in four government enterprises (30 percent). In turn, the tenants paid for the land in rice for paddy land and in sweet potatoes (converted to cash) for dry land in 20 installments over a period of 10 years (Ho 1987).

legitimacy and preventing Communist penetration into the rural areas (Tai 1973).<sup>17</sup> In addition, it helped that the Nationalist Party leaders, coming from the mainland, did not include any representatives of the local landed gentry. Taipei, China was thus conveniently sheltered from the protests of indigenous landlords against land redistribution. Likewise, the bureaucracy that had accompanied Chiang Kai-shek from the mainland had no indigenous connections and was thus more unrestrained in implementing land reform legislation. Thus, a coalition of a nonindigenous ruling party interested in seeking political legitimacy, and a bureaucracy with no connections to indigenous landlords, which were united by a common interest to avert Communist rebellion, were instrumental in bringing about comprehensive land reforms in Taipei, China.<sup>18</sup>

Unfortunately, Korea and Taipei, China are atypical among Asian developing countries (ADCs) in terms of the success of their land reform programs. Many ADCs have had a difficult time enacting and implementing meaningful land reform. In Pakistan, rates of landlessness have actually increased over time (Irfan and Amjad 1984), and this has been a significant factor in the rising rates of rural poverty. An important reason for the lack of progress on land reform in Pakistan has been the continued dominance of landlords in ruling party coalitions.<sup>19</sup> Since Independence, the activists in the Muslim League developed political clout on the basis of their wealth, mainly land ownership. Landlord families extended and perpetuated their power by entering politics and getting themselves elected to influential positions in village, provincial, and national governments. But even if they do not hold elective office, landlords are still able to exert considerable influence in government decision-making (Irfan and Amjad 1984, Stern 2001). Thus, with political clout captured, the landlord lobby has been able to thwart efforts to pass and implement meaningful land reform. The resulting feudalism in Pakistan has been blamed for the lack of progress on several fronts, including agricultural development, industrialization, and eradication of illiteracy.

Another ADC with an uneven history of success in implementing land reform is the Philippines. Initial attempts at land reform were motivated by a rebellion by Communist guerrillas (known as the Huks) during the 1940s. Under the leadership of President Ramon Magsaysay, a number of reform laws were enacted during the 1950s to avert forceful change of the existing political order. Since these reforms were not implemented effectively, there was a need for another set of reforms, as embodied in the Agricultural Land Reform Code of 1963 (Tai 1972). Indeed, the Philippines has a long history of land reform legislation that has only been implemented half-

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<sup>17</sup> In India, too, land reform was used as a means of gaining legitimacy for a new regime. The Congress Party took up the goal of abolishing the *zamindari* (sharecropping tenancy) system in 1935 as a way of widening its base beyond a small group of intellectuals, becoming a mass independence movement (Tai 1973).

<sup>18</sup> On the other hand, land reform in Thailand only marginally affected the farmers, yet agriculture has performed well (Rashid and Quibria 1995).

<sup>19</sup> Naseem (1977) notes that only 5 percent of farming families were favorably affected by the two major land reforms implemented in Pakistan in 1959 and 1972. Neither of the two land reforms measures directly improved the lot of the landless laborers.

heartedly. President Marcos launched the Operation Land Transfer program in 1972,<sup>20</sup> which was followed in 1988 by yet another land reform, the Comprehensive Agrarian Reform Law under the leadership of President Aquino. Weak implementation found as many as 72 percent of rural families still landless at the end of her term (Putzel 1992). Not surprisingly, agricultural growth has been poor in the Philippines relative to other countries in Asia. Rice yields in 1991 were less than half those obtained in PRC, Japan, and Korea.

With a former NGO leader designated in 1992 as Secretary of the Department of Agrarian Reform, substantial progress was achieved during the Ramos administration through the transfer of public land to cultivators and private land voluntarily sold by their owners to the tenants. Newly created Agrarian Reform Communities, composed of the new owner-beneficiaries, received targeted support services for increased production. Nonetheless, the political will needed to sustain this momentum declined from 1998 onwards, owing to insufficient funds allocated to the land acquisition process coupled with mounting resistance from the large private landed elites and plantation owners. The targeted number of hectares for land transfer has been reduced, while prospects for an accelerated program appear unlikely to come from the landlord-dominated legislature.

Countries that have delayed implementation of land reform find themselves in a quandary, since land reform becomes increasingly more difficult to implement the longer it has been delayed. Extensive delays in implementation of land reform not only lead to uncertainty among farmers, but also undermine land markets by allowing landowners to convert their lands to other uses to circumvent the law.

### C. Mobilizing Action for Poverty Reduction

Given the nature of the modern state, how can action for poverty eradication be mobilized within the often chaotic, free-for-all power grab by various special-interest groups? Surprisingly, very little thought has been given in the development economics literature (although it abounds in NGO literature) to issues of how to build constituencies for poverty eradication; how to form coalitions and alliances that can bring about meaningful land reform; and how to rally and organize support for rational social policies that benefit everyone in the long run.

#### 1. Coalitions of the Poor

Obviously, poverty reduction is not something that governments, NGOs, or development institutions can do by themselves for the poor. Ultimately, it is the poor who can extricate them-

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<sup>20</sup> As Putzel (1992, 374) puts it, "...since the colonial period, landowning interests have shackled the [Filipino] bureaucracy and blocked every attempt at comprehensive land registration.... The Marcos years proved that an authoritarian form of government has no special proclivity toward reform implementation."



selves out of poverty. But to be effective, the poor need to build coalitions with other groups, such as governments and NGOs. As the IFAD report on rural poverty puts it:

... it is misguided bureaucratic centralism to plan for the poor; partnerships for poverty reduction, wherever possible, start with the agency of the poor themselves, with their preferences and potentials. But it is naïve to suppose that the poor can make bricks without straw; technologies, information, schools and skills have to be built in conjunction with outsiders.... This requires putting the poor at the center of the [development] process, as full partners in determining the priorities and the directions of change, emancipating them from the constraints that trap them in poverty, empowering them (IFAD 2001, 214).

For example, in countries such as Korea, it took coalitions of tenants and grassroots organizations, such as peasant unions and people's committees, to pressure the government to enact and implement land reform. More recently, coalitions of the rural poor and civil society organizations have managed to move poverty to the top of the government's agenda in Thailand. During the period of rapid growth of the Thai economy during the 1980s and up until the mid-1990s, the incidence of poverty in Thailand fell dramatically, and the government had little interest or need in focusing much attention on poverty reduction programs. There were a number of poverty alleviation programs on paper, but they amounted to very little.<sup>21</sup> However, with the onset of the Asian financial crisis in 1997, the decade-long decline in poverty quickly came to an end, and poverty rates increased sharply.<sup>22</sup> As the situation of the poor continued to deteriorate, rural unrest began rising in Thailand. In 2000, thousands of villagers took to the streets of Bangkok to clamor for action against rural poverty. In addition, there were widespread protests in Bangkok by the rural poor against the impact on their livelihoods of the Pak Moon dam, a hydroelectric facility run by the state utility in northeastern Ubon Ratchathani province. The street protests and other demonstrations received organizational and other support from NGOs, such as the Forum of the Poor, a grassroots movement for change in Thailand.<sup>23</sup>

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<sup>21</sup> For instance, a World Bank poverty assessment noted: "... The principal conclusion of this evaluation of targeted anti-poverty programs in Thailand is that, despite impressions to the contrary, the level of government spending on these programs is small, and what money is being spent appears to be having little impact on the lives of the poor. Therefore, effectiveness of these programs in reducing the incidence and severity of poverty is limited. The widespread perception within Thailand that a lot of public spending is devoted to poverty alleviation efforts is not borne out by the reality. Rather, this impression probably reflects the number and variety of publicly-funded programs that are aimed directly or, in most cases, tangentially at helping the poor" (World Bank 1996, 49-50).

<sup>22</sup> The headcount ratio of poverty in Thailand increased from 11.4 percent in 1996 to 13 percent in 1998 and 15.9 percent in 1999. This meant that an additional one million persons became poor in 1998, with 1999 seeing another 2 million persons added to this number (World Bank 2001).

<sup>23</sup> Forum of the Poor is also referred to sometimes as Assembly of the Poor. In addition to compensation for loss of land and means of livelihood due to dam construction, another issue put on the front-burner by the coalition of NGOs and the poor is the eviction of farmers from forest areas.

The coalition of the poor and other civil society support has brought about concrete gains for the poor at the negotiation table. In 1997, the National Assembly passed a new constitution that, for the first time in Thai history, guarantees community rights to self-determination. There is also growing consensus in the country on the need for an alternative development model and the importance of developing sustainable communities in which people, especially the poor, have the power to manage their own resources in an equitable manner. The Thai Rak Thai party, which ran on a strong rural poverty alleviation platform, won the national elections in early 2001. Already the new government has gone about implementing major antipoverty projects, such as a Village-based Fund for poor villages and debt relief for farmers. Poverty alleviation has quite abruptly become the overriding objective of the new government.

There are numerous examples of successful coalitions of the poor and civil society organizations throughout Asia. One such example is the Self-Employed Women's Association (SEWA) in the Indian state of Gujarat. SEWA grew out of the long history of organizing textile workers in the city of Ahmedabad, but adapted those lessons to organizing self-employed women in the informal sector. Starting from an urban base in Gujarat, it has now expanded to organizing in the rural areas. SEWA is both a trade union and a grassroots movement for the empowerment of the poorest women in Indian society. Case studies in Carr et al. (1996) indicate that, despite initial skepticism among the members, the organization has not only led to more –than moderate income gains for the members on a regular basis, but the experience of managing producer groups has also imparted to the women members greater self-confidence, security, and independence both within and outside the household. There is a sense of solidarity among them. Caste divisions have weakened. Women now advise their husbands on cropping decisions. Their advice is also sought on community matters (e.g., sanitation). Greater political awareness has led to more active participation in local elections (Carr et al. 1996).

In the Philippines, the Congress for People's Agrarian Reform (CPAR), a coalition of 22 NGOs working with 14 large peasant alliances that represent 1.5 million small farmers, peasant women, landless cultivators, agricultural workers and fisherfolk, lobbied in the late 1980s for the incorporation of the People's Declaration of Principles on Agrarian Reform into a new agrarian reform law. With thousands of farmers and civil society members throughout the country marching, protesting, lobbying inside the legislature, and camped day after day at a tent city outside it, Congress and the Senate ultimately passed the Comprehensive Agrarian Reform Law (CARL) in 1991. Although weaker than its proponents had envisioned, CARL was more progressive than any previous agrarian reform law passed. Moreover, had not the massive peasant lobbying effort been mounted, the Law would have been even more emasculated.

CPAR had a profound impact on society. It gave national and local peasant leaders the experience of attempting to unify the organized peasantry, and some idea of the issues that divided them. They learned how to build consensus and democratic management, and got to know better the leaders of other ideological persuasions. These personal friendships undoubtedly kept the largest coalition in Philippine history going much longer than anyone would have predicted.

Fisherfolk issues surfaced separately from those of farmers; peasant participation in Congressional debates was institutionalized; and government's interest in managing dissent rather than responding to peasant demands emerged clearly. Peasants and their NGO supporters learned how organizationally strong they had to be to counter the power of entrenched elites (Goño 1996).

Although other ADCs may not currently have the strong NGOs and peasant organizations that are present in, say, the Philippines or India, it may only be a matter of time before they also emerge. At the same time, it should be realized that forming coalitions of the poor may not always be easy, given that they are not homogeneous and have different ideologies. It is possible that various coalitions of the poor with different ideologies and agenda could actually work at cross purposes, undermining each other's positive efforts.

## 2. Obtaining Support from the Nonpoor

Sometimes, antipoverty programs find little support or even outright rejection because the dominant coalition of the nonpoor perceives that it would lose from such programs. However, in such cases, the political support of some nonpoor groups can be enlisted if they also gain from the pro-poor policies. For instance, when the incomes of the poor increase, they will buy more goods and services produced by the nonpoor, and this multiplier effect will mean that the nonpoor will be more likely to provide political support to policies that increase the productivity and incomes of the poor (Streeten 1995). However, these multiplier effects from antipoverty programs need to be publicized to the nonpoor, especially the middle class. In turn, this suggests that the success of poverty alleviation programs may well depend upon how the programs are "packaged" and "sold" to the nontargeted population.

Likewise, to overcome political opposition to pro-poor policies, especially in times of financial crises, (nonpecuniary) compensation may have to be paid to the nonpoor, even though this may seem inequitable (Streeten 1995, IFAD 2001).<sup>24</sup> Streeten (1995) cites the case of urban wage earners who are often the losers in periods of structural adjustment. Although these groups are generally better-off than farmers, some redeployment payments or retraining schemes to these vocal and powerful groups may be necessary, if only to "buy" their support for pro-poor, progressive reform. As Streeten (1995, 13) puts it, "... the objective of benefiting all the poor and only the poor is [politically] impossible to achieve; excess coverage is preferable to deficient coverage, both for political and administrative reasons." This idea of not strictly limiting the benefits of antipoverty programs to the poor has been gaining ground in recent years (Gelbach and Pritchett 1995, Lanjouw and Ravallion 1998, van de Walle 1998).

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<sup>24</sup> For example, the IFAD report on poverty argues that "... in some cases, the poor may benefit by uniting with some of the rich in a coalition.... Many non-poor, for whatever reason, often support forms of insurance or universal coverage amounting to pro-poor redistribution: for example, to provide basic health care or social safety nets" (IFAD 2001).

A difficulty, however, with this argument is that leakages of antipoverty program benefits to the nonpoor are not self-limiting, and the risk of the nonpoor capturing the dominant share of public resources, and crowding out the poor completely from government benefits, is a real one (Bardhan 1984). This is especially likely to be the case when resources for antipoverty programs are limited, as in most developing countries. It is not clear at what point a government should draw the line.

#### D. Timing of Program Capture

Another important issue in the political economy of (antipoverty) program capture is that of timing. It is often the case that the nonpoor capture the benefits of an antipoverty program in the initial stages of program implementation, even when the program in question is ostensibly targeted only to the poor. This may be due to imperfect targeting, lack of information, or incentive incompatibility. However, as the antipoverty program expands over time, the incremental benefits derived by the poor from the program increase.

What this means is that average participation rates of the poor in antipoverty programs will understate their marginal participation rate. Using household survey data from the Indian National Sample Survey, Lanjouw and Ravallion (1998) test this hypothesis, and find that the marginal benefits to the poorest quintile of households from the three main antipoverty programs in India, namely, public works, the Integrated Rural Development Program, and the Public Distribution System (a food subsidy program), are significantly greater than both the average benefits as well the marginal benefits derived by the richest quintile. In addition, they find that although average primary school enrollment rates are lower for children in the poorest quintile than in the richest quintile, the marginal odds of primary school enrollment are significantly greater for the poorest quintile. These empirical findings support the early capture theory, i.e., that the nonpoor benefit from public programs early in the program cycle, while the benefits to the poor accrue later.

An example of the early-capture model is the social security program in Thailand. In late 1998, as a response to the financial crisis that hit Thailand and other countries in East Asia in 1997, the Thai government implemented a far-reaching change to the social security system that had been in place in the early 1990s. The change included the establishment of pension and child allowance schemes for private-sector employees. The idea behind the change in coverage benefits was to offer social protection to the poor affected by the Asian financial crisis.

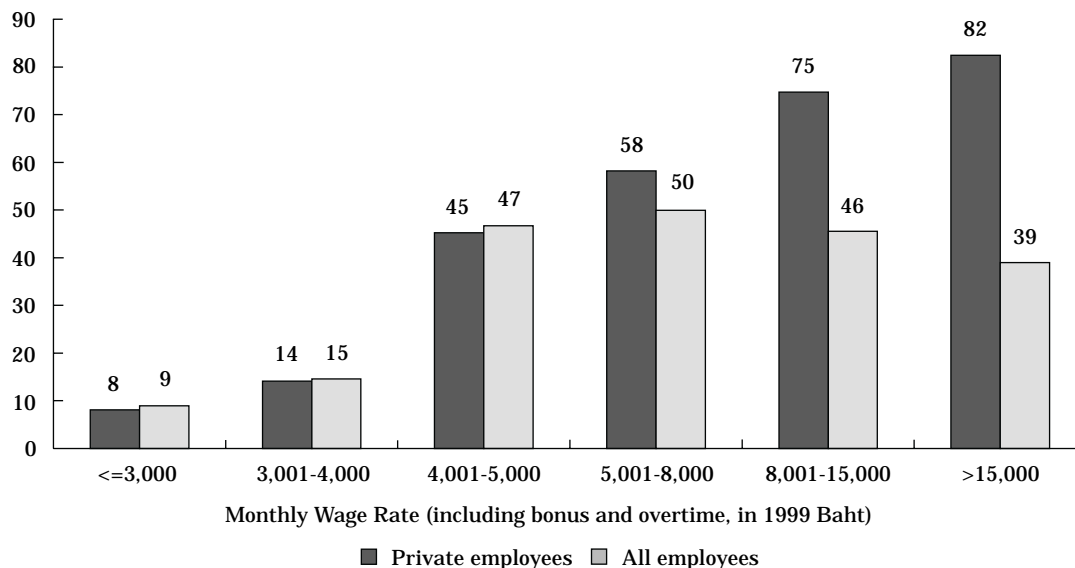
However, as of 1999, only 15 percent of Thai workers reported coverage under the Social Security Act (SSA), with wide variations across different types of workers (World Bank 2000). Since enrollment in the SSA is mandatory for employees of large private-sector firms and for public employees, social security coverage is strongly biased toward the better-off (high-wage) workers. This is seen in Figure 3, which shows 82 percent of private-sector wage employees earning more than Baht 15,000 per month, but only 14 percent of those earning Baht 3,001-4,000 per

month had SSA coverage as of August 1999. Indeed, according to the SSA rules, only workers who were paid more than the minimum wage were eligible for social security coverage, which meant that the lowest-paid workers were automatically excluded from program participation.

This bias toward high-wage employees is not a failure of the Thai social security program per se. The program is relatively new in Thailand. The history of social security programs in more developed countries suggests that initial coverage rates are typically low and are biased toward formal-sector employees who tend to be better-off than informal-sector and own-account employees. The relatively higher incomes and salaries of formal-sector employees, in fact, makes the social security program financially viable and sustainable. Over time, however, population coverage of the program expands and reaches the low-income and informal-sector groups, with the better-off salaried employees often cross-subsidizing the lower-paid informal-sector and own-account employees.

The Thai government has definite plans to expand the social security program rapidly over the next few years to cover employees of companies with 10 or fewer employees. Workers set to benefit from the program's expansion include those working in garages, restaurants, beauty parlors, and all independent ventures. By some accounts, domestic helpers will also be covered by the social security program. Thus, the poor, who did not benefit from the program in its early stages, will eventually obtain social protection from this program.

**Figure 3. Percent of all Employees and Private-sector Employees with Coverage under the Social Security Act, by Employee's Monthly Wage Rate, Thailand, Third Quarter of 1999**



Source: World Bank (2000)e.

## IV. The Role of Social and Cultural Institutions

### A. Exclusion and Poverty

Exclusion can be defined as an involuntary inability to participate in social and commercial interactions, in the institutions of society, and in the market because of factors beyond an individual's or group's control (Barry 1998, Narayan 2000b, Sindzingre 1999). Individuals or entire groups can be excluded from labor, land, and capital markets; from sharing in mainstream cultural, social, and community processes and activities; from social services such as schooling, medical services, and safe drinking water; from politics, participatory processes, and voicing their demands; and from participation in public programs and policy interventions.

Exclusion and income-poverty are not identical concepts. It is entirely possible for an individual or group to be excluded and yet not be poor (in the sense of having an income that affords them a minimum standard of living), as in the case of some indigenous peoples and materially well-off widows. Likewise, an individual or group can be poor without being excluded. Indeed, in most developing countries, the vast majority of the poor are fully integrated in social and community networks of mutual assistance. Their poverty may be related to their lack of physical assets and their low productivity, not due to their exclusion. However, even in cases where exclusion does not lead to greater income-poverty, it is always linked to exclusion from institutions of society. It therefore has a profound negative impact on the quality of life of the excluded and leads to a poorer sense of well-being (Narayan 2000b).

In general, however, there is a close correlation between exclusion and poverty. Exclusion greatly increases the risk of poverty, as excluded individuals and groups are less likely to find ways to benefit from economic growth and from formal safety net programs. At the same time, severe poverty and deprivation can lead individuals or groups to exclude themselves from society out of a sense of shame and humiliation. In this sense, poverty and exclusion form a vicious circle, with exclusion increasing the risk of poverty and impoverishment, in turn reinforcing exclusion. For this reason, exclusion is often identified as a facet of poverty and poverty as a facet of exclusion. Indeed, within a distributive justice-based definition of poverty, the absence of dignity and participation in social life are included as poverty indicators (Rawls 1971, Sen 1992).

There are various dimensions of exclusion. Among the most observed is *economic exclusion*, which means exclusion from access to factors of production (such as land, labor, capital, and infrastructure), thus resulting in low productivity, low incomes, and poverty. Additionally, certain individuals and groups might be excluded from information, which is also an important factor of production and income generation.

Another dimension of exclusion is *political exclusion*, which can be the result of peculiar circumstances or of government policies. Individuals and groups may be excluded because they are too few in number to attract government attention, too weak to lobby effectively for their rights and interests, or too unimportant as voters or taxpayers in the eyes of government. In some cases,

especially when governments have been brought to power not by election but by a particular interest or ethnic group, the government would have a strong interest in continuing the political exclusion of other ethnic or interest groups in the country. Even in many democratic regimes, especially in countries marked by high levels of illiteracy, the political machinery of patronage effectively shuts out some groups from any governmental decision making.

A third and final dimension of exclusion is *social exclusion*. According to Sindzingre (1999), social exclusion has two features. The first is that of social capital, in which an individual is deprived of relations, networks, and social support. In this case, poverty is the result of a lack of connection to social assistance networks for reasons of demography, poor health, or migration.

The second feature of social exclusion is discrimination based on systems of norms and rules. The discrimination can be permanent and due to circumstances of birth, such as discrimination against women, low castes, and ethnic or religious minorities, or it can be acquired and transitory, such as discrimination against certain occupations, single mothers, the elderly or orphans.

## B. Excluded Groups in Asia

In the rural areas, the groups that are socially, economically, or politically excluded are largely the landless, small and marginal tenant cultivators, and indigenous peoples (often ethnic minorities). In the urban areas, it is often recent rural migrants; women (especially widows and those heading households); and children (especially street children, child workers, and orphans). In addition, there are entire regions of countries that have been traditionally excluded from social and economic institutions, either because of their geographical isolation or because they have large proportions of excluded groups, such as indigenous peoples.

### 1. Landless

Many of the ADCs that are the subject of this study have a large class of landless and near-landless households. Sharecropping is also widespread, especially among the South Asian countries. It is estimated that 31-35 percent of the agricultural labor force in India is landless. The estimates for Bangladesh are even higher (37 percent). In virtually all of the South Asian countries, including Pakistan, the proportion of the landless rural population has been steadily increasing over time, in part due to rapid population growth but largely due to unequal distribution of land.<sup>25</sup>

In countries where the number of landless and land-poor is large, many of the rural poor work as *tenants and sharecroppers*. In Asia, Bangladesh, Pakistan, and Philippines, a relatively

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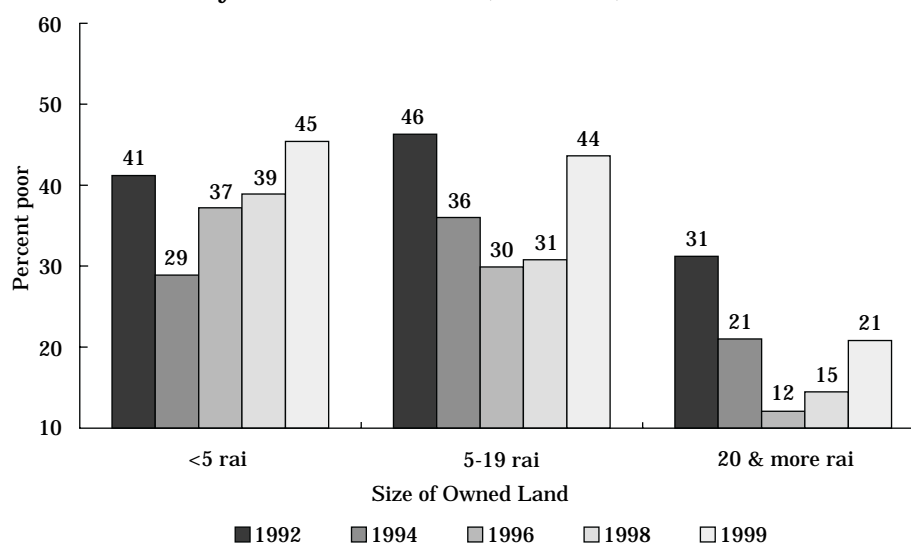
<sup>25</sup> The Gini index of land inequality was 0.55 in Bangladesh in 1981-1990 and 0.51 in the Philippines and Pakistan in 1971-1980. Thailand and Korea have relatively lower land Gini coefficients at 0.37 (in 1981-1990) and 0.35 (in 1971-1980), respectively (IFAD 2001). Taipei, China has the most favorable distribution of land, with a land Gini coefficient of 0.32 in 1976 (Jomo 2000).

high incidence of sharecropping. The relationship between landlords and tenants is often highly unequal (Okidebe 2001). Since land is the most important collateral for credit and since land and credit markets are often interlocked, these individuals and groups are effectively excluded from credit markets and have fewer opportunities to smooth consumption in the face of an uncertain environment and fluctuating incomes.

## 2. Small and Marginal Tenant-cultivators

Small and marginal farmers, whether tenants or owner-operators, are often among the poorest and most excluded segments of Asian societies. Data from Thailand offer a powerful illustration of how small and marginal owner-operators have been more or less completely excluded from the benefits of economic development during the 1990s. Figure 4 shows a higher incidence of poverty among small- and medium-size farmers.<sup>26</sup> Note also that the incidence of poverty among small landholders increased from 1994 to 1996, even as the Thai economy and Thai agriculture were experiencing robust growth and medium and large landholders were experiencing declines in poverty. With the onset of the Asian financial crisis in 1997, the incidence of poverty among small landholders continued to increase into 1999, surpassing even the incidence of poverty recorded in 1992. While medium-size farmers (those owning 5-19 rais of land) fared somewhat better, the incidence of poverty among them did not change much between 1992 and 1999 either.

**Figure 4. Headcount Ratio of Income-poverty among Farm Households, by Size of Owned Land, Thailand, 1992-99**



Source: Calculations from individual records of the Thai Socioeconomic Surveys 1992-99.

<sup>26</sup> The data obviously do not control for the quality of land. If corrections were made for land quality, it is likely that the relationship between size of owned land and poverty would be even stronger than shown in Figure 23, as a large fraction of land in the Northeast of Thailand is hilly or otherwise of low quality.



### 3. Urban Slum Dwellers

Urban slum dwellers now constitute some 30 percent of Asia's poor. Although urban poverty ratios were declining until 1997, the Asian crisis stalled this process. As residents of squalid urban settlements, informal settlers ("squatters") depend on the low-productivity informal economy for their livelihood, have malnourished children, live in miserable housing, and have little or no access to basic social services like clean water, sanitation, health clinics, and schools. Chronic insecurity stems from the constant threat of eviction.

### 4. Women

Women suffer exclusion by virtue of cultural norms that ascribe differential roles, rights, and values to women and men in the household, the economy, and the society at large. Lack of adequate health care is reflected in high maternal mortality rates, listed at 551 per 100,000 live births in South Asia, compared to the world average of 437 per 100,000. Notable exceptions are Sri Lanka and Kerala, India. Women comprise the majority of illiterates in Asia, most of them in Bangladesh, Pakistan, and Lao PDR. However, primary enrollment rates in Bangladesh and Lao PDR are now at 69 and 70 percent, suggesting the next generation of women will be decidedly better educated than their mothers. In contrast, female adult literacy rates in Southeast Asia are close to 95 percent, with primary enrollment rates reaching 100 percent.

### 5. Children

Children from poor families represent an especially vulnerable group. Like their parents, the poorest among them face daily deprivation of food, health care, education, and shelter; abuse in the home; as well as being subjected to child labor in dangerous work settings. Increasing numbers are being led into drug trafficking or sold into prostitution and pornography. Again, larger numbers of South Asian more than East or Southeast Asian children suffer from exclusion.

### 6. Indigenous Peoples

Indigenous peoples, often referred to as tribals, hill tribes, scheduled tribes, aboriginal people, backward tribes, hill or mountain people, indigenous cultural communities, or ethnic minorities, are another commonly excluded group throughout Asia. It is estimated that Asia is home to about 200 million out of the total 300 million indigenous peoples in the world (UN Department of Public Information 1992). These include the Jumma peoples of Bangladesh; the Tai-Kadai, Mon-Khmer, Hmong-Mien, and Tibeto-Burmese in Lao PDR; the Baluchi, Pathan, and Kalash in Pakistan; the Aeta, Igorot, Mangyan, Tagbanwa in the Philippines; the Aborigines of Taipei, China; the Mons, Karen, and Akha Hill Tribe in Thailand; and the Kinh, Tay, and Hmong in Viet Nam. Despite their diversity, they share common experiences of exclusion and oppression.

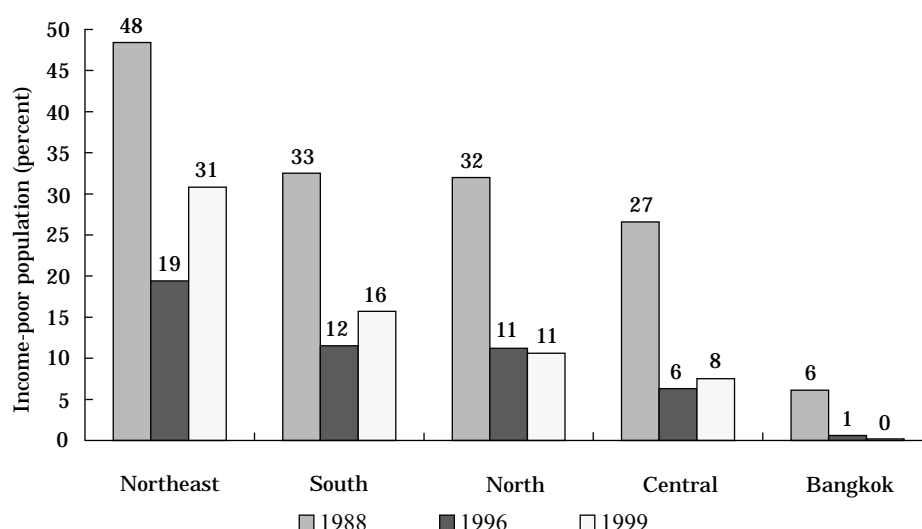
Indigenous peoples typically have least access to social services, having been driven by colonization attempts in the past to remote areas like forests and mountains. In Viet Nam, the enrollment rate of indigenous children is far below the national average, and this is especially pronounced for indigenous girls who are traditionally kept at home (UNICEF n.d.). Moreover, indigenous peoples in Viet Nam suffer problems of land use, food production, income diversification, poor health resulting from lack of clean water and unsanitary conditions, and unaffordable medical treatment costs (*Viet Nam Development Report 2000, 2001*).

Only half (52 percent) of the aborigines of Taipei, China receive elementary education (US Department of State 1995). In Lao PDR, there are approximately 4,000 villages in mountainous ethnic areas without primary schools (ADB 2000b). In the Philippines in 1994, some of the provinces of the Cordillera Autonomous Region, where the Kalinga and Ifugao dwell, were among the 10 provinces with the lowest functional literacy levels. Furthermore, the Cordillera Autonomous Region in 1997 had one of the lowest life expectancy rates at 63 years (HDN and UNDP 2000).

## 6. Regional Exclusion

Regional exclusion is often due to historical circumstances, geographic isolation, or a large density of indigenous peoples. An example of such a region is the Northeast Thailand, which has historically been the poorest region in the country. Figure 5, which shows the incidence of income-poverty in the five regions of Thailand over a 12-year period, shows that the Northeast has consistently been the poorest region in the country: in 1988, through the boom years of the early 1990s, and again during the period of the Asian financial crisis (1997-1999). In fact, while poverty de-

**Figure 5. Headcount Ratio of Income-poverty (%), by Region, Thailand, 1988, 1996 and 1999**



Source: Calculations from individual records of the Thai Socioeconomic Surveys 1988, 1996, and 1999.

clined more slowly in the Northeast than in other regions during the boom years (1988-1996), it increased much more sharply during the crisis period (1996-1999).

Another example is from Viet Nam. While Viet Nam has relatively low infant mortality relative to other countries at its level of per capita income, there are large variations in infant mortality across geographical regions. The Northern Uplands and Central Highlands, home to the largest concentration of ethnic minorities in the country, have among the highest infant mortality rates in the country, reflecting both the low living standards and generally poor access to health services in these regions. Infant mortality rates in these two regions actually increased between the 1989 Census and the 1994 Intercensal Demographic Survey, even though the average infant mortality rate for the country did not change (Table 2).

Table 2: **Infant Mortality Decline by Region, 1989-1993**

	1989 Population Census	<u>Infant Mortality Rates</u> 1994 ICDS	Percent change
Northern Uplands	45.4	62.2	37.0
Red River Delta	37.0	35.3	-4.6
North Central	46.5	37.7	-18.9
Central Coast	47.5	37.2	-21.7
Central Highlands	56.4	71.6	27.0
Southeast	33.9	31.2	-8.0
Mekong River Delta	44.1	48.2	9.3
Viet Nam	45.0	45.1	0.2

Sources: GSO (1990, 1995).

### C. Social Capital and Poverty Reduction

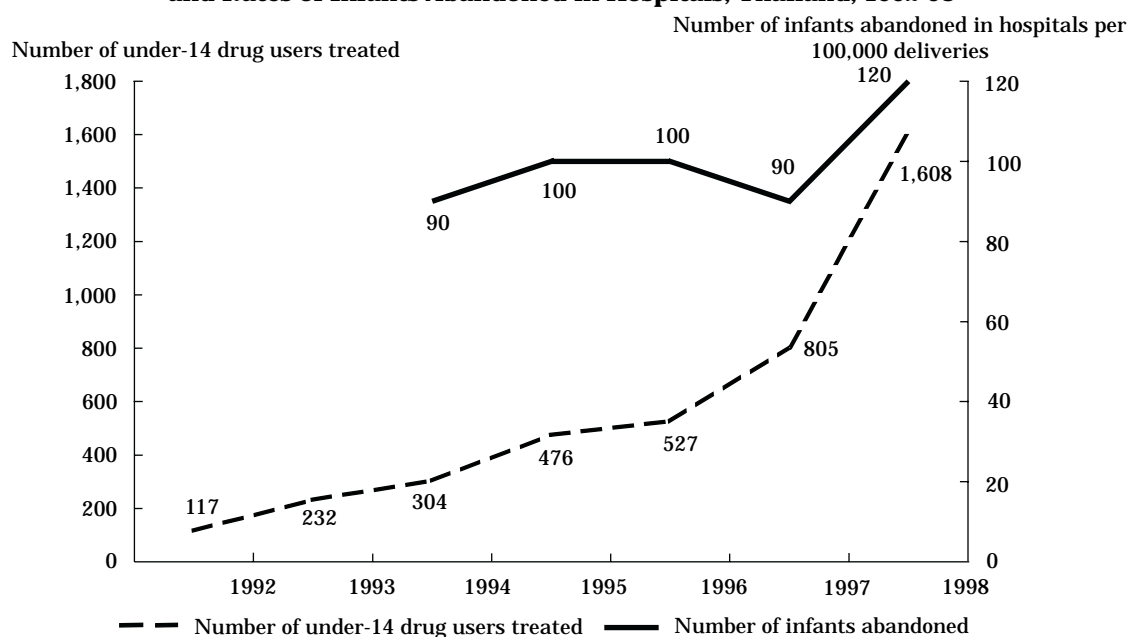
The impact of social exclusion can be mitigated by access to social capital—norms and social relations embedded in social structures of society that enable people to coordinate action and achieve desired goals (Narayan 1999). Social capital is created when people form social connections and networks based on principles of mutual trust, reciprocity, and norms for actions (Racelis 1999). The relationships and connections can either be egalitarian (or horizontal) or characterized by unequal power relationships (hierarchical), so long as they facilitate harmonization and interpersonal cooperation for mutual benefit. In addition, there are macro-institutions and structures (e.g., government, political regime, legal system, civil and political liberties) that affect the rate and pattern of economic and social development. All these forms of social capital co-exist in society to maximize its impact on economic and social outcomes. For example, macro-institutions, such as the government, can provide an enabling environment for local associations and families to develop and flourish. In turn, local associations can help sustain regional and national institutions.

The ability of the poor to survive adverse conditions and be resilient largely depends on their access to either bonding social capital (i.e., relationships among themselves) and/or bridging social capital (i.e., links to groups with access to influence and resources). The main sources of social capital include the family, community, and civil society.

The first building block in the creation of social capital for the larger society is the family. This is the most reliable source of bonding social capital. Through the cooperation of all household members, resiliency mechanisms are devised and negotiated to maximize the abilities of the household to cope with adversity.

The community augments the family as a source of social capital. In Asia, social networks abound in urban and rural communities, with many examples of neighbors, friends, and members of local associations coming to one another's assistance for overcoming survival, safety, and social problems. For instance, people lend cash or food to friends and relatives, and contribute to their wedding and funeral expenses. Rotating savings and credit associations, and informal savings clubs are commonplace, as are instances of communities working together to upgrade their alleys and pathways (Viet Nam-Sweden Mountain Rural Development Program, ActionAid, Save the Children Fund (UK) and Oxfam (GB) 1999). In the Philippines, the sense of volunteerism and mutual support is perhaps best embodied in the traditional practice of *bayanihan*, where community members help a neighbor transfer residence by lifting the hut on bamboo poles, and carrying it all the way to its new location. In Pakistan, a system of community-level food security and welfare can be found in the *zakat* system, a tax levied on the wealthy for the benefit of the poor and needy. Redistribution occurs through the mosque. Those eligible to receive *zakat*, called the

**Figure 6. Number of Treated Drug Users under the Age of 14, and Rates of Infants Abandoned in Hospitals, Thailand, 1992-98**



Source: World Bank (2000)c.

*mustahiqeen*, include the poor (especially widows and orphans), as well as people with handicaps and disabilities. There are currently 1.5 million *mustahiqeen* in Pakistan who are targeted by the *zakat* system (Social Policy and Development Centre 2000).

In Korea, a movement of various social, religious, labor, and management groups contributed immensely to relief operations for the poor and unemployed most affected by the Asian financial crisis. Voluntary donations for the poor rose in terms of both the total amount (by 8 percent) and the number of contributors (by 28 percent) (Moon et al. 1999). Likewise, in the aftermath of the Asian financial crisis, there was an increase in the number of village savings groups created and in community membership in these groups (World Bank 2000c).

It is, of course, possible for social capital to be destroyed. For instance, social capital helped buffer the initial impact of the Asian financial currency crisis on the poor in countries such as Thailand. Individuals who lost their jobs and became unemployed were taken in and supported by their families and communities. However, as the economic shock spread and persisted over time, social capital started giving way. Signs of the destruction of social capital included rising rates of prostitution, drug use, abandonment of orphans, and suicides (Figure 6) (World Bank 2000c).<sup>27</sup>

Given that social capital is such a critical source of resiliency for the poor, it is important for government poverty reduction initiatives not to supplant or undermine these networks but instead to build on them.

#### D. Civil Society as an Institutional Mechanism for Poverty Reduction

In addition to the family and the community, civil society forms an important source of social capital. Civil society consists of both formal and informal organizations that operate outside of the state and market to promote various interests in society. These include, among others, NGOs, community associations, labor unions, cooperatives, religious groups, professional associations, student organizations, media, and academic institutions.

Most of these organizations fall into three major categories: community-based organizations (CBOs), civic or professional organizations, and NGOs. CBOs feature a mostly poor grassroots membership operating on a voluntary basis through associations, unions, or cooperatives. Civic/

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<sup>27</sup> What is perhaps not so obvious is that economic expansion may also destroy some forms of social capital. When employment opportunities outside a village improve, people with weak ties, for example, young men, are likely to take advantage of them and make a break with customary obligations or social norms. Those with stronger attachments may anticipate this and perceive that the benefits from complying with agreements are now lower. Either way, the norms of reciprocity could break down, leaving some sections (e.g., the women and the old) worse off. This illustrates a general possibility in which growth of markets elsewhere has adverse effects on the functioning of a local, nonmarket institution (Dasgupta 2000). In a study of 48 water users' organizations in Tamil Nadu (an Indian state), for example, Bardhan (2000 b) reports that expanded market linkage resulted in greater violations of water allocation rules.

professional organizations are mostly voluntary and revolve around the interests of the members, who fall into the better-off socioeconomic category. NGOs represent intermediary organizations with salaried professional organizers and development workers who strengthen poor people's capacities and participation while promoting needed reforms in the government and business sector.

Together, NGOs and CBOs all over Asia are at the forefront of advocacy efforts to bring justice, peace, and equity to poor people (Racelis 2000b). They have been instrumental in helping communities draw on and expand their social capital. However, it must be acknowledged that although NGOs have reached significant numbers of poor people in ways that the government has not, there have been shortcomings. In terms of their antipoverty roles, NGOs are now realizing that their approaches have indeed benefited the poor—but not the poorest. This poses a challenge. One of the best examples of a CBO that has improved the lives of millions of the poorest people in Bangladesh is the Grameen Bank, an innovative banking system drawing upon and adding to the social capital elements of mutual trust, accountability, participation, and creativity. The Grameen Bank, which began in 1976, targets and mobilizes the poor, and creates social and financial conditions for them to receive credit on reasonable terms. Reversing conventional banking practice, it lends small amounts without physical collateral to groups of poor borrowers, mostly women. The scheme relies on group responsibility, where individual access to credit by a group member depends on the entire group's repayment behavior. On the problem of monitoring and enforcing contracts, peer pressure is utilized and helps screen good borrowers from bad ones (World Bank 1998, Khandker 1994).

Another example of a CBO that has worked is the Orangi Pilot Project (OPP) in Pakistan. The OPP has demonstrated how urban informal settlers can bring dramatic improvements to their communities when they unite to contribute their own funds and labor to a local project (Hasan 1996, Racelis 2000a). The OPP has successfully organized the poor informal-sector settlers in one of Karachi's largest slums to build themselves a model low-cost sewerage system. In addition, its partnership with urban slum dwellers has produced model programs in basic health and family planning, housing technology, education support services, credit and income generation, and social forestry (UN-ESCAP 2001, HSD-AIT 1999).

Yet another illustration comes from the Philippines. In 1992, after many years of advocacy and pressure from civil society groups, the Urban Development and Housing Act (UDHA) was passed by the legislature. This Act gave the urban poor many new entitlements, including satisfactory resettlement sites in the event that poor communities had to vacate their informal settlements. Certain prescriptions guaranteeing people's rights in the eviction process were developed, such as sufficient notice and identification of the eviction authorities.

The processes aimed at poverty eradication through people's empowerment are very different from traditional government projects that "...serve the bureaucracy of the aid system rather than the micro- or macro tasks [linked to people's development].... They [government projects] are most suitable when development means building physical infrastructure, and least appropriate for complex change involving human beings (Fowler 1997, 17).

## E. NGOs as Poverty Reduction Intermediaries

In Asia, civil society movements are generally equated with nongovernmental organizations, most of which are composed of middle-class social activists. This stems in part from NGOs having consistently been in the front line of democratization in developing societies for the last 30 years or so. They may be classified in terms of their dominant orientations as: service providers, development, and empowerment.

*Service-provider NGOs* initiate livelihood, credit and health projects, and training and education activities, among others. *Empowerment NGOs* aim to transform the socioeconomic system by addressing the structural causes of poverty thereby enabling people to obtain power through organization. *Development NGOs* endeavor to do both: meet short- and medium-term poverty reduction goals, while confronting the structural causes of poverty.

In attacking poverty, NGOs have taken on the following roles (San Juan 1996): (i) socioeconomic empowerment of poor communities through holistic sectoral and community organizing and different levels of socioeconomic education and training (e.g., skills training in enterprise development and in business management); (ii) delivery of services needed for enterprise and cooperative development (e.g., technology, credit); (iii) development of models and technologies in enterprise development for poor communities; (iv) advocacy against environmentally destructive and wasteful business/industry practices; (v) advocacy for pro-people economic strategies and approaches (e.g., agrarian reform); and (vi) checking unsustainable and inequitable economic development strategies.

In Asia, the NGO sector has shown steady growth in numbers. Bangladesh and the Philippines are each listed as having more than 40,000 NGOs. In contrast, there are very few local NGOs in Lao PDR and Viet Nam, although their numbers are increasing. At the same time, mass organizations of farmers, women, and youth in these two countries have, under political party leadership, taken on many of the service, organizational, and advocacy functions of NGOs.

Despite the energy expended by NGOs in supporting people's development, some kind of workable relationship is needed with the state if the results are to make a difference for poor people. It is noteworthy, for example, that even in Bangladesh, which holds the Asian record for the number of NGOs relative to the population, all the NGOs taken together do not reach more than 20 percent of the rural poor. Accordingly, government-NGO collaboration in addressing poverty on a comprehensive, countrywide basis is necessary.

The heterogeneity of experiences is evident. In Lao PDR and Viet Nam, international NGOs play an important community development role in partnership with the government. They work in remote areas that the government often cannot reach. Besides international NGOs, mass organizations exist in Lao PDR and function to some extent like local NGOs. These include the Lao Women's Union (LWU), Lao Youth Organization (LYO), Lao Patriotic Front for Reconstruction (LPFR), and Lao Trade Union. The Lao PDR government recognizes them as contributing to national development and social mobilization, and hence partly finances their operations. Over the

years, these mass organizations have transformed from centrally controlled, public opinion making mechanisms into institutions promoting economic and social development.

In Viet Nam as well, there are several strong mass organizations that are equivalent to local NGOs in other countries. These organizations were formed in the 1930s to mobilize support for the defense of the country. Called Social NGOs (SNGOs), these include the Viet Nam Women's Union (VWU), Viet Nam Youth Organization (VYO), Viet Nam Farmers Association (VFA), and Viet Nam War Veterans Association (VWVA). Many government officials and retired army officials hold part-time positions in the local organizations of these SNGOs, in as much as the development of these SNGOs occurred under the auspices of the Communist Party and the central government.

These mass organizations thus cannot strictly be part of civil society, since they share many of the characteristics of state organizations. They are not expected to be critical of government or its policies. This said, their broad network of organizations extending from central to local levels, and their large membership (over 11 million VWU members and around four million VYO members), allow them to play a crucial role in the successful implementation of government policies (Riska n.d., United Nations in Viet Nam 1999).

Bangladesh and Pakistan have similar histories and approaches taken by government vis-à-vis NGOs. Pakistani NGOs now number between 25,000 and 30,000 (ADB 1999c). They can be classified according to the focus of their work: (i) advocacy and lobbying; (ii) policy issues and debates; (iii) emergency, rehabilitation, and relief organizations; and (iv) implementation of development projects and programs, including service delivery groups and community-based organizations. Most NGOs in Pakistan, however, engage in emergency, rehabilitation, and relief work (ADB 1999d). Only about 100 NGOs are considered to be actively involved in assisting in development work, i.e., capable of implementing community-based projects with the appropriate skills, coverage, linkages, delivery mechanisms, and documentation systems. Others tackle income generation, poverty reduction, vocational training, nutrition and food security, and maternal and child health, and reproductive health (ADB 1999d).

In Bangladesh, an estimated 20,000 registered NGOs working in 78 percent of the villages are said to benefit some 24 million people (ADB 1999g). Bangladesh is one of the leaders of the developing world in the number, scope of work, and impact of its NGOs in poverty alleviation (Sobhan 1998). Their efforts have focused on microcredit; employment and income generation; formal and nonformal education of children and adults; health, nutrition, and family planning; establishment of effective democratic processes at the grassroots level; women's rights; environment; poultry and livestock; water supply and sanitation; and human rights and legal aid. Further, Bangladeshi NGOs are becoming increasingly active in public policy advocacy roles, on issues such as drug policy, breast feeding, reproductive rights, land reform, indigenous people's rights, primary education, and flood action (ADB 1999c). Their campaigns have had substantial effects on public policy (ADB 1999e). Some of the developing world's most successful NGOs, such as BRAC, Grameen Bank, and PROSHIKA are based in Bangladesh.



In Thailand, NGOs have taken on strong advocacy and community support roles toward pro-people and pro-poor strategies and approaches. They openly criticize government and private-sector entities that undermine or resist these approaches and have no hesitation to take to the street in protest together with their grassroots partners. For example, one of the most important roles assumed by Thai NGOs has been to challenge Bangkok-centric anti-environmental development trends. The government allowed advocacy groups to operate in 1992, and today, these groups have proven instrumental in protecting natural resources and the environment, especially by exposing harmful industrial practices. The construction of the Nam Choam Dam, for example, was challenged by a well-organized NGO alliance in cooperation with the media. They succeeded in thwarting the government's plans to build this major dam in Thailand's most valuable western border forests. In the South, the Yad Fon Foundation works effectively with provincial governments and local villagers to protect coastal mangroves and fishing against the destructive practice of prawn farm cultivation and trawl fishing. The government has generally supported NGO contributions to national development, especially in social service delivery and resource management, but more cautiously in advocacy roles.

NGOs in the Philippines have likewise assumed strong advocacy roles over the years. This is due to their origins in 20th century social movements of various peasant, worker, and urban poor groups protesting their continuing marginalization and disaffection with incompetent, corrupt, and authoritarian government administrations (Silliman and Noble 1998). NGOs in the Philippines operate in wide-ranging development areas—from agrarian reform to food security, health, employment, biotechnology, micro-credit, housing, livelihood, information technology for people's organizations (POs), and other issues. They have challenged the development paradigms of the various governments as insufficiently geared to equity and poverty elimination. When former President Estrada appeared to be devoting more attention to the pursuit of personal gain through fraudulent means rather than ensuring effective pro-poor governance, his initial NGO and PO supporters were among the first to bring him to account.

An interesting development since 1996 has been the increasing incorporation of NGO leaders into government at the Cabinet level as well as in high positions in the bureaucracy. Further, a number of NGO and PO leaders have run for local office in an attempt to incorporate the principles of NGO work into government. Others were elected to Congress through the party list system, allowing unrepresented groups to organize their own political parties catering to their particular interests. The ADB (1999e) has ranked the Philippines as having "the most advanced state of GO/NGO relations in the region."

Nongovernment organizations and CBOs have many advantages over government agencies. Being relatively unencumbered by bureaucratic rules and regulations, they possess a flexibility that government agencies often lack. They work in remote areas (which typically have large concentrations of the poor) that the government often cannot reach. They also stress participatory and integrated approaches, encouraging the poor to contribute their views and involvement at every stage, from planning to implementation and to monitoring and evaluation. Even the oft-stated shortcoming of NGOs, viz, that they operate at a relatively small scale and therefore cannot

make a difference, is misleading, since an important function of NGOs is to innovate and set up models for emulation.

Advocacy has been another important activity of NGOs. They have used their experiences and clout to influence governmental policies on poverty reduction. NGOs have also sometimes appointed themselves to be “watchdogs” over government actions, devising community-friendly systems for exacting transparency and accountability.

At the same time, government officials have reason to be critical of NGOs and their activities. Quick to criticize, some NGOs often do so ignorant of the technical, legal and administrative frameworks that guide government decisions. Municipal administrators cite NGO demands for immediate financial allocations covering housing schemes for the poor, for example, when the municipal budget had been finalized months before. NGOs are often viewed as “trouble-makers” in inciting community based organizations to protest government delays, which are often due to standard auditing procedures in the process of implementing pro-poor programs. NGO “arrogance” in demanding action and the tendency of some to speak for poor people rather than enable the latter to speak for themselves are also criticized.

Government officials complain further that NGOs sometimes develop parallel programs in health or family planning, for example, which unnecessarily duplicate government services and cause confusion when the NGOs ask government to take over these services due to funding problems. Moreover, some self-serving individuals (sometimes retired or retrenched government bureaucrats) have created pseudo-NGOs as mechanisms for tapping into government or donor funds, with no real intention of helping needy people. NGOs have generally taken these criticisms to heart and begun collaborating more closely with those government officials who seem to be genuinely interested in pursuing common concerns.

## V. Reforming Public Institutions for Poverty Reduction

Politico-administrative institutions—including policies, structures and processes, both formal and nonformal—play a fundamental role in the implementation of poverty reduction efforts in ADCs. How such institutions are designed, developed and reformed, and how administrative capacities are built and strengthened—the very elements of good governance<sup>28</sup>—can thus have an important impact on a country’s poverty reduction efforts.

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<sup>28</sup> The standard and widely accepted definition of governance is offered by the UNDP (1997) as “... the exercise of political, economic and administrative authority to manage a nation’s affairs. It is the complex mechanisms, processes, relationships and institutions through which citizens and groups articulate their interests, exercise their rights and obligations and mediate their differences.” Four types of governance are identified: economic governance, political governance, administrative governance, and systemic governance. The concern of public sector reform as discussed in this paper is on political governance and mostly on administrative governance.

There are four major areas of reform involving public institutions, namely:

- (i) *Administrative reforms*, including reform of the bureaucracy and civil service, that improve the internal rules and restraint mechanisms that promote public-sector efficiency.
- (ii) *Decentralization* that empowers local communities through their local or subnational governments and provides them opportunities to be heard and to participate in public decision-making institutions and processes.
- (iii) *Wider citizen participation* through the opening of public institutions to the communities by providing them access to policymaking and service delivery, and enabling their participation in oversight and accountability mechanisms.
- (iv) *Improved legal framework* for policies and institutions that are primarily committed to poverty reduction, including maintenance of law and order.

#### A. Administrative Reforms for Poverty Reduction

Public sector reforms are usually associated with comprehensive changes in the institutions, organization and processes in the bureaucratic machinery of the state. These changes may be brought about through comprehensive reorganization plans that may include streamlining the bureaucracy; improving coordination among agencies with overlapping functions; downsizing, rightsizing and redeploying personnel;<sup>29</sup> improving the salary structures of those working in the civil service; introducing performance management and appraisal; and deregulation, privatization, and decentralization of selected bureaucratic functions.

The implementation of public sector reform is central to improving the processes of governance. Administrative reforms can foster economic growth and sustained poverty reduction by reducing obstacles to private-sector development that the poorly performing public sector often creates. Such reforms can also increase public resources for priority spending by containing salary expenditures (achieved via cost cutting and bureaucracy downsizing). And finally, administrative reforms can contribute to poverty reduction through reduced corruption and increased accountability to the poor.

Many ADCs have implemented administrative reform over the years, with Korea and Taipei, China introducing some of the earliest civil service reforms (Table 3). As would be expected, the experience with administrative reform has been uneven across countries. The Republic of Korea launched large-scale administrative reforms in 1961 to orient the bureaucracy to the goal of

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<sup>29</sup> The three main approaches that can be used to correct the excessive size of bureaucracies and make them more accountable are: (a) reconstruction of the internal working of the bureaucracy via competition or by quasi-profit incentives to bureaucrats to maximize the surplus of budgets over costs; (b) development of market alternatives to government agencies; and (c) political reorganization to make bureaucracies more sensitive to the ultimate consumer and to public opinion (Niskanen 1973).

economic development and poverty reduction. As is well known, Korean development was highly interventionist, with the state taking the primary responsibility of capital formation, resource allocation, and project selection. This meant that the bureaucracy and civil service had to be heavily involved in implementing various projects and programs at the micro level. Even in the agricultural sector, for instance, there was widespread intervention by the state in credit, education, transportation, and even recreation (Aqua 1981). *Saemaul undong* was a comprehensive rural development program that the government in cooperation with NGOs began in 1970 to raise the rural standard of living. The program, which espoused “diligence, self-help, and cooperation” as its motto, was designed to increase farm incomes by improving agricultural infrastructure and seed varieties and applying new farming techniques. Increased farm productivity served as the main engine for rural income growth. The Korean state used the bureaucracy to successfully penetrate traditional rural power structures and communal networks in the countryside. Pressure was exerted on local administrators by the central government to ensure the achievement of *saemaul undong* goals. The result was the transformation of the local bureaucracy from a control-oriented institution to an action-oriented instrument of developmental change (Brandt and Lee 1981). The main workload of local officials consisted of encouraging and persuading farmers into greater cooperative self-help efforts, rather than enforcing bureaucratic regulations and promoting their own interests. It is estimated that even today, most local officials spend half or more of their time away from their desks talking to villagers and guiding or inspecting projects (Han 1997).

Like Korea, Taipei, China has reduced poverty dramatically over the past three decades (Tsai 2001). Since the mid-1930s, Taipei, China has launched a series of comprehensive administrative reform programs, beginning with the Committee for Studying Administrative Efficiency in 1934. These were followed by other administrative reform measures initiated by Chiang Kai-Shek in the early 1940s called “Three Connected States of Administration” that demonstrated the administrative process into the planning, implementation, and evaluation stages. Perhaps the key to the success of the administrative reform initiatives has been good implementation (Sun and Gargan 1996, Tsai 2001). For instance, toward the late 1950s, a report was made on the number of recommendations implemented by the various administrative reform committees. A study showed that 75 of the 88 recommendations for administrative reform were actually implemented. As in Korea, the civil service reforms sought to integrate the civil service firmly into the implementation and success of poverty reduction strategies, such as the highly successful Well-To-Do-Program. The Taipei, China land reform initiative was another example of a bureaucracy oriented firmly toward agricultural development.

One reason for the success of the Korean and Taipei, China bureaucracies in singlemindedly pursuing development outcomes has been the insulation of the technocratic elite in charge of policy making and implementation from the “ravages of short-run pork-barrel politics” (Bardhan 2001).<sup>30</sup> Despite their best intentions, other ADCs have found it difficult to bring about such insulation.

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<sup>30</sup> Of course, as Bardhan (2001) notes, insulation of the technocratic elite can also result in inefficiencies, as it makes “...it difficult to attain flexibility in dealing with changes in technical and market conditions and also in correcting wrong decisions.”

**Table 3: Administrative Reforms in Selected ADCs**

Bangladesh	Administrative Services Reform Committee and the National Pay Commission (1972-1975) Committee on Administrative Reform and the National Pay Commission II (1975-1981) Martial Law Committee for Examining Organizational Set-Up 1982 Committee for Administrative/Reorganization/Reform 1982 Public Administration Efficiency Study, November 1989 Public Administration Sector Study in Bangladesh, July 1993 Towards Better Government in Bangladesh, September 1993 Administrative Reorganizing (Nurun Nabi) Committee 1993-1996 Public Administration Reform Commission 1997
Korea	National Civil Service Act of 1947 Supreme Council for National Reconstruction 1961
Laos	Committee for Organization and Personnel 1991 Department of Public Administration 1991 Committee for Government Organization Improvement 2000
Pakistan	Haffeez Pasha Report 1997 Commission on Administrative Restructuring 1999
Philippines	Government Survey and Reorganization Commission 1954-56 Integrated Reorganization Plan of 1972 Presidential Commission of Government Reorganization 1986 Reengineering the Bureaucracy 1992 Presidential Commission on Effective Governance 1999
Taipei, China	Committee for Studying Administrative Efficiency 1934 Committee for Improvement of Administrative Efficiency 1937 Three Connected States of Administration 1940 Regulation for the Structure of Position Classification Planning Committee 1956 Pushing Forth Administrative Reform and Establishing Clean and Efficient Government 2001
Thailand	Civil Service Act of 1928 Civil Service Act of 1975 Civil Service Act of 1992
Viet Nam	<i>Doi Moi</i> 1986 (that included governance reforms) Public Administration Review 2000

Sources: Constructed from data obtained from Shelley (2000), Ahmed and Khan (1990), Aminuzzaman (1992), Thamrongthanyavong (1998), Joong-Yand and Kyung-Bae (1994), Carino (1992), Sun and Gargan (1996), ADB (1999), World

In Bangladesh, even though various governments have instituted many different administrative reforms and committees over the years (e.g., nearly six different sets of reforms between 1971 and 1985), there has been little noticeable change in the civil service (Ahmed and Khan 1990, Siddiqi 1995, Shelley 2000). Among the major recommendations that were repeatedly made by the various reform committees were improvement in the pay scale of civil servants and decentralization of administration.<sup>31</sup> In most cases, however, the key recommendations of the various bodies

<sup>31</sup> The issue of decentralization of administration in Bangladesh is further discussed in the section on Decentralization for Poverty Reduction.

were either rejected or implemented in radically modified forms (Shelley 2000, Barenstein 1994). Centralization, politicization and patronage continue to be important characteristics of public administration in Bangladesh (as in many other ADCs).

The new government of Pakistan has recently embarked on a large effort to reform and reshape the civil service in that country (ADB 2001). It has enhanced the powers of the Federal Public Service Commission and launched a frontal attack on corruption that has included: dismissal of more than 1,000 civil servants; a comprehensive scheme of interprovincial transfer of civil servants, especially among the District Management Group and the Police; downsizing the bureaucracy, including consolidation and merging of ministries, divisions, and departments; full review of civil servant salary structures; and new training and career planning of civil servants, including performance-based promotions.

Viet Nam's administrative reforms have been part of the overall reform process of *doi moi* that transformed the Viet Nameese economy from a centrally planned system to a market-based one (UNDP/UNICEF 1996). The government's strategy has focused on good governance, viz., transparency and accountability, as an important mechanism to attain stability, economic growth, and equity. Among the administrative reforms implemented in Viet Nam are: new provisions requiring public comments on draft laws and regulations before promulgation; new provisions that laws and other official instruments will take effect only after being published in the Official Gazette; replacing discretionary licensing with registration and making information on registrations public; providing for codification and indexing of all laws and other official instruments; requiring compulsory publication of court judgments; forming a clear distinction between the roles, responsibilities and finances of different government agencies (including the Prime Minister's Office, line ministries, sectoral ministries, People's Councils, People's Committees, and state-owned enterprises); professionalizing the civil service, including rationalizing salaries, training, with recruitment and promotion grounded on merit; and wide-ranging financial management reforms at both national and subnational levels of government (World Bank et al. 2000).

While it is clear that *doi moi* as a whole has been very successful in promoting economic growth and poverty reduction in Viet Nam, it is not clear how much of this success is the result of administrative reforms that have accompanied *doi moi* and how much is the result of the opening-up of the Viet Nameese economy. In reality, the two features of *doi moi* are interrelated, and it is difficult to isolate the effects of each on growth, equity, and poverty reduction. There is little doubt, however, that administrative reforms have introduced an element of transparency and accountability in the workings of the government at all levels. Nevertheless, the problem in Viet Nam, as in Lao PDR, is the continued politicization of the civil service, which may serve as an obstacle to meaningful reform. It is difficult for civil servants to be "professional" and nonpoliticized within the context of a politico-administrative system dominated by the ruling party (Klaus 1997).

## B. Decentralization and Poverty Reduction

Decentralization is a reform relating to the institutions of governance. Broadly speaking, it includes several policy reforms that are designed to transfer rights and responsibilities from central government agencies to local institutions and communities. The reforms include privatization and deconcentration or devolution of political, administrative, and fiscal powers.<sup>32</sup>

A great deal of decentralization around the world has been based on the assumption that the quality of administration and service delivery will improve by shifting decision making and accountability closer to communities. Decentralization involves redistributing power from central bureaucrats to communities and households, who presumably have a greater stake in the content and quality of administration and social services. Proponents of decentralization believe that the granting of power and authority to these stakeholders will make the government more responsive to the needs of local communities, and will more fully exploit the knowledge, creativity, and initiative of agents at the community level.

Whether or not and in what ways decentralization has helped the poor in Asia are important questions. Although decentralization has been experimented with in several Asian countries, the extent, forms and outcomes vary considerably. In several cases, the political dimension has been a dominant one, and changing political circumstances have shaped the process of decentralization. Economic conditions have not been so crucial in decisions. Nor has decentralization been a response to mass pressure from the grassroots level. It has been usually a top-down process, guided mostly by the narrow self-interest of political leaders seeking legitimacy and mass support.<sup>33</sup> As a result, devolution has tended to be patchy or has sometimes been reversed. In conditions of extreme inequality, it has been unusual for local self-governing institutions to be captured by the elite. But, at the same time, there has been a few cases that benefited the poor.

### 1. The Political Economy of Decentralization

Decentralization essentially involves distribution of power and resources, both among different levels of the state and among different interests in their relationship to ruling elites, locally

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<sup>32</sup> Deconcentration refers to the dispersal of agents of higher levels of government into lower levels of decision making. Decentralization, on the other hand, involves devolution of political, administrative, and fiscal powers. Devolution of all these powers may not occur simultaneously or may occur in varying degrees.

<sup>33</sup> Manor (1999) is emphatic that “no set of economic conditions has been a particularly important cause of decisions to decentralize.” Instead, these have been more decisively influenced by the “hard-nosed calculations of self-interest” of political leaders. Moreover, “most decentralizers have conceived and implemented these reforms from above, on their own initiative, relatively free of pressure from below.” Smoke (1999), however, has a broader and more persuasive view. In the Asian context, he notes, in some cases, international donor pressure without national commitment has been a key factor, while, in other cases, internal political and/or economic crises have played an important role, sometimes resulting in “quick-fix” decentralization programs that are neither carefully designed nor sustainable.

as well as nationally (Crook and Sverrisson 1999). The nature of the politics of central-local relations is therefore critical to decentralization. There are two key elements: (i) configuration of the local power structure and (ii) sources of the power bases of the national ruling elite.

An issue connected with the first element is whether capture of local governments by the local elites is inevitable, given an antagonistic relationship between them and the dominated groups (i.e., the poor and vulnerable). Some evidence from the Indian state of West Bengal points to a complex relationship (Echeverri-Gent 1993). In a competitive political system, the ruling Communist Party consolidated its position by forming a broad-based alliance of the poor, middle peasants and *salariat*, and in the process supplanted the old landlord class.<sup>34</sup>

The role of the second key element, the interrelationships between national and local elites, is no less complex. Three distinct scenarios are: (i) the ruling elite or central authority seeks to build its power bases through an alliance with regional/local elites that are supportive of its interests and enjoy some autonomy; (ii) the central elite challenges or circumvents locally powerful groups; and (iii) the ruling elite consolidates its position in a society where local elites do not have significant autonomous power (Crook and Sverrisson 1999). In the first scenario, there is bargaining and cooptation, and devolution of power and allocation of resources. Pro-poor outcomes are unlikely in this case. Many military regimes have sought to legitimize themselves in this way (e.g., Ghana in 1989-1992, Chile from 1975), as have established party regimes aiming to consolidate support (e.g., Colombia during the 1980s). In the second scenario, there is ideological rivalry, class and ethnic conflict, and deep distrust between elites at different levels of government. The challenge to entrenched regional/provincial elites may follow a popular revolution (as in post-Marcos Philippines) or the coming to power of social democratic or communist parties (as in the Indian states of West Bengal or Kerala). Poverty reduction in this case might typically be achieved by a centrally funded antipoverty strategy, with the implementation assigned to decentralized bodies in a tightly controlled framework. In the third scenario, decentralization is predominantly of the deconcentration type, indicative of the power and effectiveness of the regime down to the local level. While pro-poor outcomes are not ruled out under this scenario, there is a danger of consolidating a system of corrupt patronage-based linkages (as in Bangladesh in the late 1980s and early 1990s).

## 2. Decentralization, Poverty Reduction, and Nature of the Political Regime

The nature of the political regime in a country matters greatly to the success or failure of decentralization in bringing about pro-poor outcomes (Kohli 1987). A good illustration of this is the case of the Indian state of West Bengal. In 1978, a leftist coalition, the Left Front, led by the Communist Party of India (Marxist) (CPI-M), came to power in West Bengal. In order to challenge

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<sup>34</sup> This is termed as the “political patronage hypothesis” by Echeverri-Gent (1993), according to which representative democratic participation generally results in the growth of organizations that capture the resources available to them, and are pushed by electoral logic to mediate the interests of the poor within a broader support base.



the power of the Congress party and the landlord classes in the rural areas, the Left Front sought to create a strong base by devolving the implementation of development programs to village *panchayats* (councils) and by mobilizing the poor to participate in them. Empowerment of poor and landless peasants was meant to give mass support to the CPI-M's radical agrarian reform program. This program was designed to restructure the semifeudal basis of rural society via redistribution and protection of sharecroppers.

Several indicators confirm pro-poor aspects of the devolution. In Birbhum District, for example, the proportion of village panchayat members belonging to "Scheduled Castes and Scheduled Tribes" (SC/ST) (i.e., backward castes and tribes) rose from 34 percent in 1977 to 41.5 percent in 1988. In 1988, nearly 45 percent of all village panchayat members were either small peasants, sharecroppers, or agricultural laborers, or a combination of these (Lieten 1988). Female participation, however, remained low.

Higher representation of the poor did not, however, imply greater participation in panchayat meetings. SC/ST members seldom spoke, and when they did they were ignored (Westergaard 1986). But there were other changes that compensated the poor or the disadvantaged, such as an expansion of employment opportunities and higher agricultural wage rates. A survey revealed that a vast majority (78 percent) of landless men attributed significant changes to the panchayat system, as did a larger majority (84 percent) of SC/ST respondents. The female respondents were less appreciative (Webster 1992).

A counter-example is provided by the experience of Bangladesh. Decentralization introduced by President H. M. Ershad in 1985 was designed to legitimize his military regime and to build support for a newly created party, the Jatiya Party (Crook and Manor 1998, Crook and Sverrisson 1999). Rural landed elites and power brokers were co-opted to build a political power base, with limited power sharing. Two tiers of elected local councils were created. The first tier comprised the directly elected Union Councils with populations of around 20,000. Above them in the second tier were the Sub-district (*upazila*) Councils with an average population of 245,000.<sup>35</sup> The new system thus combined elements of deconcentration and devolution. The Councils were largely dependent on central funds as they lacked revenue-raising powers.

There were no reservations or quotas for the poor or the disadvantaged.<sup>36</sup> As a result, both the Union and Sub-district Councils were dominated by the affluent landed classes, and the landless were excluded. Most of the affluent Sub-district Chairmen spent much of their time in Dhaka, networking with influential politicians and civil servants. Soon after they were elected, 55 percent of the Chairmen joined the Jatiya Party.

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<sup>35</sup> The subdistrict councils included indirectly elected Union Chairmen, various appointees, heads of newly deconcentrated ministries at the subdistrict level, and a directly elected Chairman.

<sup>36</sup> There was, however, provision for the appointment of three women at the subdistrict level, but without any voting rights. In a total of 4,401 council persons, six women served as Union Chairwomen, with their husbands exercising the real authority.

A survey of rural residents revealed that a majority of them knew little about the upazila, and very few had attended any council meetings (Ingham and Kalam 1992). Another survey found that 64 percent of village residents were “not at all satisfied” with either the Union or the upazila councils, largely because of the corrupt and dictatorial behavior of their political leaders (Crook and Manor 1998). In the Ingham and Kalam survey, 75 percent of the elite respondents felt that NGOs and voluntary associations had performed better than local governments, and 90 percent claimed to have had personal experience of corruption. Much of the funding of the councils was devoted to patronage-related activities that did not benefit the poor. But in some cases, especially those involving infrastructure, projects chosen by the Councils were congruent with expressed needs of village respondents (Crook and Manor 1998).

Whatever the gains to the Ershad regime of co-opting the local elites and power brokers through decentralization, these did not last long. In the 1990 elections, 90 percent of the upazila chairmen were rejected by the electorate, and a year later the regime itself collapsed.<sup>37</sup>

A third illustration of how political regimes matter to the poverty outcomes of decentralization is offered by the experience of the Philippines. Decentralization was ushered in the Philippines with the passage of the landmark Local Government Code in 1992 (LGC 1992) in accordance with the 1987 Constitution. It curtailed the policy-making authority of both the President and the legislators in important ways. The salient features of the Code (Brillantes 1998, Eaton 2001) were:

- (i) Devolving responsibility for the providing basic services (such as health, social welfare, environment, education, agricultural research and extension, and public works) and the corresponding expenditures to local governments;
- (ii) Devolving certain regulatory functions such as reclassification of agricultural land, inspection of food products, implementation of laws relating to environment and building codes;
- (iii) Providing representation for NGOs and People’s Organizations in local special bodies such as local development councils, local health boards, and local school boards;
- (iv) Enhancing financial resources available to local governments through (a) automatic revenue sharing procedures in place of the previous system of negotiated transfers; (b) giving local governments more autonomy in deciding how to use the additional revenues; (c) broadening of their powers to levy taxes and fees; (d) increased internal revenue allotments from 11 to 40 percent; and (d) sharing of national wealth (e.g., mines, forestry and fisheries) in their respective areas; and
- (v) Fostering the entrepreneurial spirit of local government units by enabling them to borrow in the market (by floating bonds), to enter into build-operate-transfer arrangements with the private sector, and in general to adopt a competitive business outlook.

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<sup>37</sup> For a review of why more recent attempts at decentralization did not serve the poor better, see Westergard and Alam (1995) and Khan (1999).

The LGC transferred significant powers, authority, and resources (including financial) to thousands of local governments throughout the country. After a decade of implementation, most observers agree that the Code has indeed unleashed the potentials in the countryside long held hostage by a highly centralized government. It has empowered many local communities to build local infrastructure such as public housing, address environmental concerns, make health and education services more accessible, and enhance opportunities for people to participate in governance. Whether all this has measurably brought down poverty is not very clear yet, however.

### 3. Fiscal Decentralization

An important consideration in devolving taxation power to local authorities is to encourage greater fiscal responsibility and a stake in the cost-effectiveness of public expenditure. Some potential effects of such devolution may, however, cause inefficiencies and inequities. If there is a great deal of mobility between local jurisdictions, differences in taxes could misallocate the mobile factors. Inequities, on the other hand, may arise due to differences in fiscal capacities and preferences for redistribution. There is thus need for central control to harmonize the tax system, achieve a fairer redistribution, and reduce tax collection costs. For these reasons, central governments in developing countries tend to retain control over direct taxes that apply to mobile factors (e.g., capital) and which redistribute wealth (e.g., progressive taxation of income, wealth, and gifts). Some taxes are collected centrally, partly because of lower collection costs, but shared with lower levels of government.<sup>38,39</sup> When there is a myriad array of subnational taxes (a case in point being different sales taxes at the state level in India), there may be large efficiency gains from harmonizing the taxes.<sup>40</sup>

In contrast, expenditure assignments are more decentralized than revenue collection. However, there is often a vertical fiscal imbalance. As a result of economies of scale in tax collection by central governments and geographic concentration of economic activities, few local governments have access to elastic sources of tax revenue. They are thus perpetually dependent on central governments for transfers and grants, and this restricts their financial autonomy. Transfers and grants are designed to correct fiscal imbalances, reflect externalities (i.e., the interests that residents of other localities have in the spending decisions of a particular authority, e.g., in road building), and help equalize across different localities. Specific forms of transfers and grants include conditional or matching grants, unconditional grants, and earmarking.

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<sup>38</sup> On the general principles of tax assignments, see Bird (1999) and Oates (1999).

<sup>39</sup> Until recently, the PRC differed from other developing countries in so far as local governments collected most of the revenues and “shared up” (Bardhan 1997).

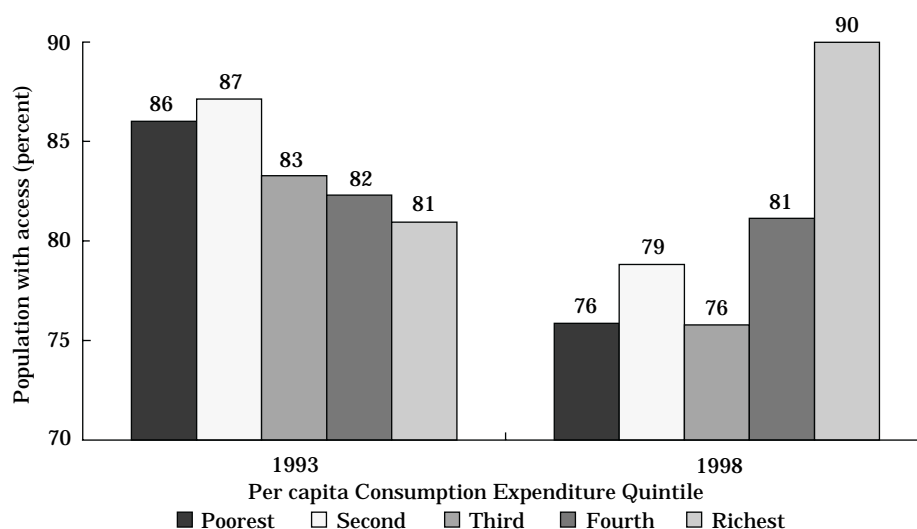
<sup>40</sup> For a detailed exposition of this and the preceding issues, see Bardhan (1997).

The case of Viet Nam offers an important example in the area of fiscal decentralization. Before 1997, the fiscal system was centralized and rigid, with hardly any provision for local initiative in providing public services. Delivery of public services to the poorer districts and communes was unsatisfactory, as the provinces made subprovincial allocations. Inevitably, therefore, these services were financed by contributions from the local community, resulting in a regressive system.

In 1997, a New Budget Law, which provided a legal framework for the budgetary process and defined the functions and sources of revenue of different government agencies, went into effect. The budgetary process integrated revenues and expenditures at all levels of government—a change from the past when the state budget included only those expenditures of the communes that were financed from the revenues devolved by the provinces or districts. The Law brought a measure of fiscal stability by implementing a system of assignments and transfers that were to remain unchanged for 3-5 years. While the revenue from tax assignments would automatically adjust to changes in prices and GDP, cash transfers were to be adjusted in accordance with prices and GDP every year. In addition, the Law linked the revenue assignment at each level of government to the expenditure responsibilities, and formalized levy of charges, fees, surcharges, and collection of voluntary contributions by local governments.

There is some evidence that suggests that disparities in government expenditure, especially on social services like health and education, have widened across poor and rich provinces in recent years (World Bank 2000d). However, it is not clear whether this has been due to fiscal decentralization per se or due to the general process of liberalization and deregulation of the Viet Nameese economy. Likewise, national household survey data over two time periods suggest that

**Figure 7. Population Access to Motorable Road, by Per Capita Expenditure Quintiles, Viet Nam, 1993 and 1998**



Source: Calculations from the individual records of the Viet Nam Living Standards Surveys of 1993 and 1998.

the differences in access to rural infrastructure (roads in particular) across economic quintiles grew much sharper in 1998 relative to 1993 (Figure 7). While there may be several factors responsible for this, fiscal decentralization had probably something to do with this trend.

The PRC's experience with fiscal decentralization was very different than Viet Nam's. During the 1980s, the Chinese fiscal system underwent significant changes. A unitary system, in which the central government had absolute control over revenue collection and budget appropriation, was converted into a decentralized arrangement in which the revenues were shared by the central and provincial governments. Under this arrangement, most of the provincial governments were required to remit a portion of their budget revenues to the central government. The provinces that were unable to cover the unspecified expenditures received subsidies. Similar fiscal arrangements were made between successive tiers of governments at lower levels.

A major change occurred in 1985.<sup>41</sup> Although revenues were still divided into three categories—central fixed, local fixed, and shared<sup>42</sup>—the criteria for division changed. While the previous divisions were based primarily on the ownership of state enterprises, the new divisions reflected tax categories.<sup>43</sup> In this arrangement, central and local fixed revenues accounted for a relatively small part of the total government budget, and the shared revenue for a substantially larger part. This meant that the central government now relied on local governments to mobilize more revenues. Since the latter could retain a share, it was in their interest to raise more revenues. An econometric analysis confirms a significant effect of fiscal decentralization on per capita GDP growth.<sup>44</sup> Specifically, the growth rate rose by 3.6 percentage points in response to a fiscal reform that raised the marginal retention rate of budgetary revenue from 0 to 100 percent. This finding is confirmed in alternative specifications, involving different lags between growth rates and fiscal decentralization, reverse causality, and inclusion/exclusion of subsidies. It appears that fiscal de-

<sup>41</sup> Five types of sharing schemes were enacted in 1988, compared with four during 1985-1987. For details, see Lin and Liu (2000).

<sup>42</sup> Under an initial revenue-sharing arrangement enacted in 1980, revenues were classified into central fixed revenues (e.g., customs duties, revenues remitted by centrally owned state enterprises); local fixed revenues (e.g., agricultural taxes, revenues remitted by locally owned state enterprises, etc.), and central-local shared revenues (e.g., profits of large-scale enterprises under dual leadership of central and local governments). Subsidies were provided for the poor and remote regions.

<sup>43</sup> The changes in the fiscal system were driven by three factors. One was the emergence of nonstate-owned enterprises (township and village enterprises, joint ventures, private firms) with substantial revenue-generating potential. Since state enterprises had become a drain on the fiscal system, the central government was forced to turn to alternative sources of revenue such as nonstate-owned enterprises. Another was the greater local autonomy as a consequence of economic liberalization. It was thus natural for subnational governments to demand fiscal decentralization commensurate with their greater political autonomy. The third factor was essentially economic. Unless incentives are combined with local autonomy, local resource mobilization is likely to be sluggish.

<sup>44</sup> Using a production function approach, a two-way fixed effects error component model is estimated. The estimation is based on panel data from 28 of the 30 provinces in the PRC for the period 1970-1993. A distinctive feature of this analysis is the use of a marginal retention rate as a measure of decentralization, as opposed to the average share of government budgetary revenue retained by a province. For other details of the econometric analysis, see Lin and Liu (2000).

centralization contributed to growth through an improvement in resource allocation efficiency and not so much by inducing more investment. To the extent that growth of income is associated with poverty reduction, it follows that the impact of fiscal decentralization on poverty was not insignificant.<sup>45</sup> But there is some evidence in the PRC as well that points to a growing disparity in provision of social and economic services at the local level between rich and poor regions.

#### 4. Incentives, Accountability, and Capture

Incentive-compatible organizational structures contribute greatly to the smooth and effective functioning of local governments. The decentralization experiences of different Indian states highlight this issue well. India introduced the 73<sup>rd</sup> Constitutional Amendment Act of 1993 to revitalize the panchayats with a key role in rural development. This amendment is an important landmark, as it provides for a uniform three-tier structure of panchayats at district, block, and village levels; mandatory elections every five years; proportional representation of backward castes and tribes; a quota for women; periodic auditing of accounts; and specification of areas of responsibility of the panchayats at the three levels. As these are broad guidelines, each state was required to modify its existing Acts accordingly, with some discretionary elements.<sup>46</sup> The village or gram panchayat has a major role in implementing two antipoverty programs, the Integrated Rural Development Program or IRDP (a credit subsidy program) and Jawahar Rozgar Yojana or JRY (a rural public works program).<sup>47</sup> As the new structure was implemented, serious aberrations came to light, based on a review of state conformity Acts and their implementation in the three states of Uttar Pradesh, Karnataka, and Maharashtra.<sup>48</sup>

##### a. Incentives

A somewhat glaring weakness of the panchayat system in India is the absence of incentives for the bureaucracy to serve the interests of elected panchayat members. Given unsettled political conditions, the bureaucracy took full advantage of its privileged position to divest village panchayats of virtually all their major responsibilities in Uttar Pradesh (UP). Out of all areas assigned to the panchayats in the UP Act, only rural sanitation was assigned to them. That the bureaucracy could overextend its domain in violation of the state Act had a lot to do with an unstable party coalition (between the Samajwadi Janta Party and Bhartiya Janta Party) and unsettled conditions in the

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<sup>45</sup> For an exposition of why the range of the elasticities is so large, see Gaiha (2001a).

<sup>46</sup> A broad specification of areas of responsibility at different levels of the panchayats is given in the 11th Schedule of the Indian Constitution, added following the 73<sup>rd</sup> (amendment) Act.

<sup>47</sup> While the gram panchayats are assigned a key role in implementing the JRY, especially the wage employment component, their role in the context of the IRDP is limited to identification of beneficiaries.

<sup>48</sup> For details, see Gaiha et al. (2000).

hill areas. More generally, this points to a limitation of the Crook-Sverrisson framework (1999) in which a distinct role for the bureaucracy is not identified.

In another state, Karnataka, the absence of incentives for different levels of the panchayats to function in a coordinated manner allowed higher levels of panchayats to reassign all major responsibilities between them, reducing village panchayats to a nearly inconsequential role.

Weak accountability of village panchayats contributed to their capture by a few functionaries of panchayats and local administration, through a tight control over information relating to antipoverty and other development programs. In sharp contrast, an incentive structure designed for the competitive and profitable functioning of town and village enterprises (TVEs) in the PRC in the 1980s and early 1990s produced spectacular results. Partly to curb rural-urban migration, the central government sought to promote rural industrialization by allowing local communities to organize their own enterprises. Through their interaction with the administration, community leaders were able to obtain information on profitable opportunities and access credit and other resources for promoting the TVEs. In the process, local governments in successful coastal provinces became self-reliant and fiscally prudent (Bardhan 1996).

Another example of an imaginative use of incentives is the Korean irrigation system that relies on locally recruited patrollers who are also the end-users themselves. They thus have a strong incentive to perform well and to prevent water theft and regulate its use (Wade 1994). Likewise, Taipei, China's irrigation systems are among the best in the world, with much of their efficiency arising from the institutional arrangement that ensures a high degree of cooperation and coordination between irrigation officials and farmers (Law 1996).

## **b. Accountability**

Although there is some overlap between incentives and accountability mechanisms, the latter are a subset of the former and may even be mandatory. Accountability of the panchayats could be viewed from two perspectives: that of the funding and higher authorities and that of the local community. In either case, accountability has financial and administrative aspects. Here, the focus is on the financial aspects.

The state Acts emphasize financial accountability of the panchayats to the funding authority and not so much to the community. This is reflected in the importance given to financial reporting, preparation of budgets, and auditing of accounts at each level of the panchayat. The concern is not limited to the balancing of the revenue and expenditure but extends to compliance of expenditure with the guidelines/norms prescribed by higher authorities for various schemes. For example, the distribution of expenditure on the JRY between wages and material costs must be 60:40. It is, however, debatable whether adherence to such rigid norms has any economic justification. Further, as a consequence, the limited autonomy panchayats are permitted tends to delay implementation. Serious doubts persist about the accountability of the village panchayat to the village sabha, despite the key role assigned to the latter and specification of its power and functions.

### c. Capture

A survey of three districts in UP that focused on the implementation of two major antipoverty programs (the JRY and IRDP) in 1997 points to the pervasiveness of rent-seeking behavior in all the village panchayats (Gaiha et al. 1998, 2000). There were large-scale diversions of resources by the chairpersons, panchayat secretaries, and village-level workers for personal gain. As a result, the benefits of the JRY, IRDP, and other rural development programs to the poor were minimal.

For example, instead of the village assembly identifying the beneficiaries for the IRDP, the chairpersons selected them, often in exchange for bribes. Lack of awareness of various antipoverty projects, weak accountability mechanisms in the village community, and a local power structure in which the upper castes (especially Brahmins and Thakurs) were dominant and the poor lacked organization, were all responsible for the status quo being maintained. Excessive pessimism and fear of violence among the poor and other vulnerable sections virtually eliminated any prospect of organized protest or resistance. It is ironic that large segments of the rural population continue to be at the mercy of a few powerful groups despite a drastic overhaul of the panchayats, following the 73<sup>rd</sup> Constitutional Amendment Act, which was designed principally to ensure greater participation of the weak and powerless, such as members of the backward castes and tribes.

## 5. Capacity Building

A major problem faced by decentralization efforts is that in most ADCs newly formed local governments have very weak capacities of governance. This can sometimes be dangerous and lead to misuse when substantial spending decisions are devolved from the central to the local level. It is imperative therefore for capacity to be built at the local government level before or concurrently with devolution of fiscal and administrative powers to the local level.

The Japanese experience in decentralization is instructive in this regard. The Ministry of Home Affairs (MoHA) of Japan has played a key role in managing a process of "controlled decentralization" in Japan since the end of the Second World War (Akizuki 2001). The MoHA administers the local allocation tax, which is a revenue-sharing scheme that covers about 20 percent of all revenues of local governments. This allows it to keep an eye on local governments and quickly detect excessive spending and mismanagement. The MoHA is empowered to monitor, direct, and sanction local governments for that purpose, and puts pressure on local governments to balance their budgets.

But the most interesting feature of Japanese decentralization relates to the intergovernmental exchange of personnel. Civil servants in the MoHA are expected to go through unique career paths that involve stints in both the MoHA central ministry as well as the local prefectural governments. Upon return to the MoHA, many are transformed into advocates of the causes of local governments. Personnel exchanges between various levels of government provide a powerful means of communication, oversight, and capacity building (Akizuki 2001, Inoki 2001, Inatsugo 2001).



### C. Participatory Governance

Participation is defined as “...a process through which stakeholders influence and share control over development initiatives and the decisions and resources that affect their lives” (Fowler 1997). The participation of citizens in the different phases of poverty reduction programs—be it at the conceptualization, design, implementation, or evaluation stages—can lead to the choice of appropriate projects and make efforts at decentralization effective (Sen 2001, Narayan et al. 2000, World Bank 1996). While decentralization in principle should lead to greater citizen and community participation, in practice this has not always been the case.

Participation can be operationalized through various mechanisms. This could include consultations (direct or indirect) and partnerships with the citizens in various phases of the project cycle, from project identification, to design, implementation, and to evaluation.

An illuminating example of citizen participation for good governance is Governance Score Card project pioneered by the Public Affairs Center in the Indian city of Bangalore (Paul 1997, World Bank 2001a). The project, instituted by the city in partnership with several local community-based organizations, seeks to assess the efficiency and adequacy of government services from the recipients’ point of view. Users of municipal services are asked to evaluate and provide feedback on the quality of delivery of basic services, including general urban services, health, and the public distribution system (i.e., food subsidies). The score card approach has introduced a measure of accountability, transparency, and competition in the municipal bureaucracy in Bangalore, and has been generally regarded as a successful initiative. It is being replicated in several other Indian cities.

Another example of citizen participation in governance for poverty reduction is the *Saemaul Undong* movement in Korea.<sup>49</sup> Mobilized by the spirit of self-help and voluntary labor among the poor, millions of rural people in Korea have participated in the movement since the early 1970s resulting in the construction of thousands of hectares of rural roads, rural houses, roads and irrigation systems. After initially being a government-driven movement in the 1970s, the *Saemaul Undong* was eventually privatized in the 1980s and has continued to enhance resident participation in regional and social development programs. Consequently, it has provided the context and basis for decentralization and local autonomy (Kee-Ok 1993).

A comparative analysis of community involvement in the delivery of primary education in two Indian and Chinese villages—the village of Palanpur in Uttar Pradesh and the village of She Tan in Zhejiang province—is provided by Dreze and Saran (1995). Palanpur has no effective village council or village government that could perform a supervisory function for the local school, and act as an intermediary between the district administration and the village community. The caste-based fragmentary politics at the village level also prevents collective action or the development of responsive institutions. As a result, education in Palanpur has been neglected over several

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<sup>49</sup> *Sae* means “new” and suggests innovativeness; *maul* means “villages.”

generations, and the female literacy rate has increased from 6 percent in 1981 to only 8 percent in 1991.<sup>50</sup> In She Tan, in contrast, there is a village government and a party organization that respond to the community's concerns and needs. In fact, they have been effective in improving the school's functioning and disciplining of wayward teachers. In contrast to Palanpur, She Tan has achieved impressive literacy rates in 1978, with little bias against female education. Despite a resource crunch following the introduction of the household responsibility system, school enrollment rates in 1993, as in 1978, were maintained at close to 100 percent.<sup>51</sup> Community participation in basic education can explain a large portion of the difference in educational outcomes across the two villages.<sup>52</sup>

#### D. Legal Framework and Poverty Alleviation

Another element of good governance is the rule of law. The legal framework affects poverty alleviation indirectly via its effect on economic growth. There is a wealth of evidence showing that investment and economic growth rates across countries are positively correlated with the effectiveness of the legal system (Barro 1994, Knack and Keefer 1994, Mauro 1995, Sachs and Warner 1995). However, the legal system, which includes both the type of laws in place and the enforcement of these laws, also directly affects poverty reduction. A case in point is land reform, one of the most important policy tools for asset redistribution and poverty reduction. While there are many factors determining the success of land reform, the existence of an appropriate legal framework for land reform and land redistribution is essential to successful implementation. Given that land rights held by the poor are often very insecure, the legal system can enhance the ability of the poor to utilize and invest in land that they cultivate by giving them clearly defined land (title) rights, resolving land disputes expeditiously and fairly, and protecting them against "land grabbing."

Another example of laws relevant to the poor are affirmative action laws and laws against discrimination. Many of the poor—women, ethnic and religious minorities, low castes, orphans, and the elderly—frequently face discrimination in the labor, land, and housing markets and in educational opportunities. Indeed, in some countries, the traditional legal system explicitly constrains women from owning land, inheriting parental assets, and bequeathing assets to their children. Obviously, such laws perpetuate discrimination and poverty. A reformed legal system that protects the rights of disadvantaged groups and ensures the full participation of every citizen in economic and social activity can be a powerful means of helping the poor. In some cases, the legal system (via affirmative action laws) can even attempt to compensate disadvantaged groups for

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<sup>50</sup> The male literacy rate did not increase much either, from 28 percent in 1981 to 33 percent in 1991 (Dreze and Sharan 1995).

<sup>51</sup> Under the household responsibility system, incomes derived from production are earned by households and not by the collective. Also, there are stringent limits to the village government's power to tax. As a result, the financial basis of social services at the village level has weakened considerably (Dreze and Sharan 1995).

<sup>52</sup> The resources available for basic education, as well as the value systems of households toward education, also differ significantly across the two villages (Dreze and Sharan 1995).

past injustices by entitling them to special quotas in, say, government hiring and university admissions.

In some countries, such as India, the executive and legislative systems have vested citizens with substantive legal rights, including the right to a work place, the right to housing, and even (in the state of Maharashtra) the right to employment. Residents of the Indian state of Madhya Pradesh have the right to a primary school in their village or community. The elevation of social rights to legally defensible private property rights, combined with the right of citizens to take the state to court over these rights,<sup>53</sup> has empowered the ordinary citizen, especially the poor. Of course, it has also led to a substantial increase in litigation in Indian courts, which in turn has meant long delays and reduced access by the poor to legal recourse (Pistor and Wellons 1999).

How legal impediments can thwart beneficiary participation in both the operation and management of elementary schools is strikingly illustrated in a case from Pakistan (SPDC 2001). Following the implementation of the Social Action Program (SAP), school management committees (SMCs) were set up in the province of Punjab. These consisted of nine members, of whom three were nominated teachers, three were locally influential persons or social workers, and three were elected parents.<sup>54</sup> Fearing domination by outsiders, the SMCs were restricted to teachers and parents in a ratio of 1:3. The parents' representatives were elected. The mandate of the SMCs included improvements in the quality of school education, checking absenteeism of teachers, maintenance of school buildings, and raising of funds. Each SMC had its own bank account. To ensure transparency, the president of the committee and one elected parent managed the accounts. Monitoring of teacher performance and attendance led to some improvement in the quality of teaching. Funds were mobilized to expand the school facilities and to carry out some improvements in the physical infrastructure of the schools. However, following an attempt to empower SMCs to debit pay based on performance, the Punjab Teachers' Association filed a lawsuit to have SMCs declared illegal entities. The courts upheld the petition, and the SMCs ceased to function. Thus, an important vehicle of educational decentralization and stakeholder participation in schools was rendered null and void because of the absence of a legal framework.

In addition to a legal framework, the simple maintenance of law and order is critical for the poor (as it is for the nonpoor). When public safety, law and order decline, the incidence of crime increases, and this in turn leads to reduced investments and increase in poverty. The poor in both rural and urban areas are particularly vulnerable to crime and the least able to recover from it. As such, they are the hardest hit by deteriorating law and order and absence of the rule of law.

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<sup>53</sup> Of course, the vast majority of the poor are probably not even aware of these rights, given the low levels of literacy among the poor and their restricted access to information.

<sup>54</sup> Initially, there were 12 members. After a year, the number was reduced to nine (SPDC 2001).

## VI. Conclusion and Policy Implications

There is little question that economic growth is critically important to poverty reduction. Cross-country differences in growth explain a great deal of the variation in poverty reduction performance of countries. However, growth is not sufficient for poverty reduction. Institutional and other factors also matter, as borne out by country studies at the subnational level.

### A. Political Will and Commitment

The primary prerequisite for poverty reduction is political will and commitment on the part of the government. The government is the key actor with whom other groups, such as civil society and international organizations, can cooperate in the fight against poverty. Even in countries having a strong and rich tradition of civil society groups and NGOs committed to poverty reduction, the reach of these groups to the poor is limited.

But how is this political will or commitment to be formed? There are no simple answers to this question. Neither democracy nor authoritarianism ensures that the government in power will be committed to poverty reduction. What is more critical is the nature of interest groups and dominant coalitions that “capture” public decision making. Where coalitions of the poor have a significant influence on policy, a strong political will to eradicate poverty is likely to evolve.

However, forming coalitions of the poor may not always be easy, given that they are not homogeneous and have different ideologies. It is possible that various coalitions of the poor with different ideologies and agendas could actually work at cross purposes, undermining each other’s positive efforts.

Progress can be made on poverty reduction when coalitions of the nonpoor are dominant in a country. The government can gain the political support of nonpoor groups by emphasizing the benefits to the nonpoor and society as a whole of poverty reduction policies and programs. Fortunately, there is increasing awareness of the positive externalities of poverty reduction.

### B. Social and Cultural Institutions

All over Asia, there are a number of groups that have been socially, economically, or politically excluded from mainstream development for several decades or generations. These include, inter alia, the landless, small and marginal tenant cultivators, and indigenous peoples (often ethnic minorities) in the rural areas; likewise, the rural migrants, women (especially widows and those heading households), and children (especially street children, child workers, and orphans) in the urban areas. In addition, there are entire regions or provinces in countries that have been traditionally excluded from social and economic institutions, either because of their geographical isolation or because they have large proportions of excluded groups, such as indigenous peoples. Exclusion is often associated with poverty and has a profound negative impact on the quality of life of the excluded.

Governments can make special efforts to provide access to land, credit, employment, and educational opportunities, as well as access to basic social services, to historically disadvantaged and excluded groups. The use of affirmative action policies such as policies that set aside quotas for minorities in education, job, or political opportunities may also be called for to reverse decades or centuries of discrimination and exclusion of certain groups.

Informal networks and social relations embedded in the social structures of society or social capital are critical for the survival of the poor and demonstrate their resilience in the face of daunting challenges. They can mitigate the impact of social exclusion through mutual helping behavior, and can create a sense of identity and solidarity. The state has an important role to play in sustaining people's social capital as well as in expanding the framework for creative and inclusive forms of assistance that have a lasting impact on poverty. Specifically, government poverty reduction initiatives should not supplant and undermine social and mutual assistance networks but instead build on them.

### **C. Administrative Reform**

Administrative reforms can foster faster economic growth and sustain poverty reduction by removing the obstacles to private sector development, increasing public resources for priority spending, reducing corruption, and increasing the accountability of the public sector.

While many ADCs have undertaken civil service reforms, the implementation leaves much to be desired. In general, the civil service remains bloated, slow, and unresponsive to the needs of the poor. In fact, in some situations, the bureaucracy is an impediment to change and poverty reduction. This does not mean, of course, that such reforms should not even be attempted; it simply suggests that civil-service reform will not be easy. Reforms must address the roots of the problem, ranging from archaic rules and procedures and stubborn mindsets compounded by generally low salaries in the bureaucracy.

### **D. Decentralization**

The process of decentralization has been slow, uneven, and uncertain in Asia. In most cases, it has been a top-down initiative, while in a few cases it has been motivated by a concern for political legitimacy by nondemocratic regimes. In general, decentralization in Asia has not benefited the poor except in a few cases. However, its potential for poverty alleviation remains significant, and its failure to help the poor is largely the result of poor design and implementation.

There are several lessons to be learned from the Asian experiences in decentralization. First, decentralization is a complex political process as it tends to disrupt the power and privileges of influential groups. There is a strong motivation for these groups to capture local government agencies for their personal gain, thereby rendering the decentralization process antipoor. Weakening the resistance of the influential groups is therefore essential. This could be achieved through

gradual decentralization, public discussion, and mass campaigns to highlight the merits of decentralization.

Second, to ensure that the poor are included in local governments, it may be necessary to set membership quotas for women and other disadvantaged groups in local bodies, to strengthen local and state-level organizations of the poor, and to facilitate access to information. The latter would also result in greater transparency of local governments and help curb corruption.

Third, administrative decentralization without fiscal devolution is meaningless. At the same time, greater fiscal autonomy to local governments requires (i) a higher share of transfers from central to local governments as untied grants, (ii) converting these grants into a share of state revenues, (iii) defining through state legislation an equalization formula to allocate grants to local governments, and (iv) increasing the sources of local revenues through local taxation and improved tax collection. Local governments should be also allowed to access capital markets directly so that they can mobilize their own resources. Equally important in the context of poverty alleviation is the need for greater flexibility in designing and implementing centrally sponsored schemes (such as rural public works) at the local level. However, there must be periodic audits combined with accountability of outcomes to the local community.

Fourth, capacity needs to be built at the local government level. Few local governments have the capacity to identify demand, contract for delivery of services, and target the poor. Local capacity is a must before significant fiscal and administrative powers can be devolved.

## **E. Participatory Governance**

Participatory governance has been shown to improve the quality of public services and public administration, and is likely to help orient institutions toward development and poverty reduction. While there are a few innovative examples of a participatory approach to poverty reduction in a few ADCs, notably Bangladesh, Philippines, and Thailand, citizen and community participation in governance are still generally rare in much of Asia.

## **F. Legal Framework**

A strong legal framework can be a catalyst for innovative and comprehensive poverty reduction initiatives. For instance, meaningful progress on land reform cannot take place until there is such a framework for land redistribution, land title rights, land disputes, and protection against “land grabbing.” Likewise, a strong legal system is needed to guard against discrimination and to protect the rights of the poor.

## **G. Role of International Development Organizations**

What can multilateral agencies, such as the ADB and the World Bank, do to address the institutional limitations to poverty reduction? Many of the policy options discussed in this paper

apply not only to governments but also to international organizations. Some of these options are already being pursued, but more could be done. For instance, there needs to be much greater involvement of beneficiaries and the community in the selection, design, implementation, and monitoring of projects. Likewise, partnerships with civil society groups, such as NGOs and CBOs, could be further strengthened. International organizations can also increasingly work with decentralized local government agencies instead of working solely with central government agencies. Further, it may be useful to move away from narrowly defined project approaches and reorient larger shares of financial and technical assistance to supporting programs of decentralized and participatory governance, programs that seek to build coalitions of the poor, and programs that combat social exclusion (e.g., affirmative-action programs).

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